DIANA SHIPPING INC.
Form 20-F
March 30, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

* REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

* TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ _____________ OR

* SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report.

Commission file number 001-32458

DIANA SHIPPING INC.
(Exact name of Registrant as specified in its charter)
Diana Shipping Inc.
(Translation of Registrant's name into English)

Republic of The Marshall Islands
(Jurisdiction of incorporation or organization)

Pendelis 16, 175 64 Palaio Faliro, Athens, Greece
(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common stock, $0.01 par value	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

________________None________________

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2009, there were 81,431,696 shares of the registrant's common stock outstanding

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requ irements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 oItem 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

o Yes o No

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FORWARD-LOOKING STATEMENTS

Diana Shipping Inc., or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe", "except," "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "will," "may," "should," "expect" and similar expressions identify forward-looking statements.

Please note in this annual report, "we", "us", "our" and "the Company" all refer to Diana Shipping Inc. and its subsidiaries.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the dry-bulk shipping industry, changes in the Company's operating expenses, including bunker prices, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, or the SEC.

PART I

Item 1.Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2.Offer Statistics and Expected Timetable

Not Applicable.

Item 3.Key Information

A. Selected Financial Data

The following table sets forth our selected consolidated financial data and other operating data. The selected consolidated financial data in the table as of December 31, 2009, 2008, 2007, 2006 and 2005 are derived from our audited consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The following data should be read in conjunction with Item 5. "Operating and Financial Review and Prospects", the consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

	As of and for the Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands of U.S. dollars, except for share and per share data and average daily results)				
Income Statement Data:					
Voyage and time charter revenues	$239,342	$337,391	$190,480	$116,101	$103,104
Voyage expenses	11,965	15,003	8,697	6,059	6,480
Vessel operating expenses	41,369	39,899	29,332	22,489	14,955
Depreciation and amortization	44,686	43,259	24,443	16,709	9,943
Management fees	-	-	-	573	1,731
Executive management services and rent	-	-	-	76	455
General and administrative expenses	17,464	13,831	11,718	6,331	2,871
Gain on vessel sale	-	-	(21,504)	-	-
Foreign currency losses (gains)	(478)	(438)	(144)	(52)	(30)
Operating income	124,336	225,837	137,938	63,916	66,699
Interest and finance costs	(3,284)	(5,851)	(6,394)	(3,886)	(2,731)
Interest income	951	768	2,676	1,033	1,022
Loss from financial instruments	(505)	-	-	-	-
Insurance settlements for vessel un-repaired damages	-	945	-	-	-
Net income	$121,498	$221,699	$134,220	$61,063	$64,990

Preferential deemed dividend	$-	$-	$-	$(20,267)	$-

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	As of and for the Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands of U.S. dollars, except for share and per share data and average daily results)				
Net income available to common stockholders	$121,498	$221,699	$134,220	$40,796	$64,990
Earnings per share basic and diluted	$1.55	$2.97	$2.11	$0.82	$1.72
Weighted average basic shares outstanding	78,282,775	74,375,686	63,748,973	49,528,904	37,765,753
Weighted average diluted shares outstanding	78,385,464	74,558,254	63,748,973	49,528,904	37,765,753
Cash dividends declared and paid per share	$-	$3.31	$2.05	$1.50	$1.60
Balance Sheet Data:					
Cash and cash equivalents	$282,438	$62,033	$16,726	$14,511	$21,230
Total current assets	297,156	68,554	21,514	19,062	26,597
Vessels, Net	979,343	960,431	867,632	464,439	307,305
Total assets	1,320,425	1,057,206	944,342	510,675	341,949
Total current liabilities	32,386	20,012	20,964	7,636	4,667
Deferred revenue, non current portion	11,244	22,502	23,965	146	-
Long-term debt (including current portion)	281,481	238,094	98,819	138,239	12,859
Total stockholders' equity	999,325	775,476	799,474	363,103	324,158
Cash Flow Data:					
Net cash flow provided by operating activities	$151,903	$261,151	$148,959	$82,370	$69,256
Net cash flow used in investing activities	(73,081)	(108,662)	(409,085)	(193,096)	(169,241)
Net cash flow provided by (used in) financing activities	141,583	(107,182)	262,341	104,007	119,457
Fleet Data:					
Average number of vessels (1)	19.2	18.9	15.9	13.4	9.6
Number of vessels at end of period	20.0	19.0	18.0	15.0	12.0
Weighted average age of fleet at end of period (in years)	4.9	4.3	3.4	3.7	3.8
Ownership days (2)	7,000	6,913	5,813	4,897	3,510
Available days (3)	6,930	6,892	5,813	4,856	3,471
Operating days (4)	6,857	6,862	5,771	4,849	3,460
Fleet utilization (5)	98.9 %	99.6 %	99.3 %	99.9 %	99.7 %
Average Daily Results:					
Time charter equivalent (TCE) rate (6)	$32,811	$46,777	$31,272	$22,661	$27,838

Daily vessel operating expenses (7)	5,910	5,772	5,046	4,592	4,261

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(1) Average number of vessels is the number of vessels that constituted our fleet for the relevant period, as measured by the sum of the number of days each vessel was a part of our fleet during the period divided by the number of calendar days in the period.

(2) Ownership days are the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.

(3) Available days are the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

(4) Operating days are the number of available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

(5) We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning.

(6) Time charter equivalent rates, or TCE rates, are defined as our voyage and time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel) expenses, canal charges and commissions. TCE rate is a non-GAAP measure, and is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters are generally expressed in such amounts. The following table reflects the calculation of our TCE rates for the periods presented.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands of U.S. dollars, except for TCE rates, which are expressed in U.S. dollars, and available days)				
Voyage and time charter revenues	$239,342	337,391	$190,480	$116,101	$103,104
Less: voyage expenses	(11,965)	(15,003)	(8,697)	(6,059)	(6,480)
Time charter equivalent revenues	$227,377	$322,388	$181,783	$110,042	$96,624
Available days	6,930	6,892	5,813	4,856	3,471
Time charter equivalent (TCE) rate	$32,811	$46,777	$31,272	$22,661	$27,838

(7) Daily vessel operating expenses, which include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, are calculated by dividing vessel operating expenses by ownership days for the relevant period.

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B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our common stock. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition or operating results or the trading price of our common stock.

Industry Specific Risk Factors

Charter hire rates for dry bulk carriers may decrease in the future, which may adversely affect our earnings.

The dry bulk shipping industry is cyclical with attendant volatility in charter hire rates and profitability. The degree of charter hire rate volatility among different types of dry bulk carriers has varied widely, and charter hire rates for Panamax and Capesize dry bulk carriers have reached near historically low levels. Because we charter some of our vessels pursuant to short-term time charters, we are exposed to changes in spot market and short-term charter rates for dry bulk carriers and such changes may affect our earnings and the value of our dry bulk carriers at any given time. We cannot assure you that we will be able to successfully charter our vessels in the future or renew existing charters at rates sufficient to allow us to meet our obligations or pay any dividends in the future. Fluctuations in charter rates result from changes in the supply and demand for vessel capacity and changes in the supply and demand for the major commodities carried by water internationally. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.

Factors that influence demand for vessel capacity include:

Ÿ supply and demand for energy resources, commodities, semi-finished and finished consumer and industrial products;

Ÿ changes in the exploration or production of energy resources, commodities, semi-finished and finished consumer and industrial products;

Ÿ the location of regional and global exploration, production and manufacturing facilities;

Ÿ the location of consuming regions for energy resources, commodities, semi-finished and finished consumer and industrial products;

Ÿ the globalization of production and manufacturing;

Ÿ global and regional economic and political conditions, including armed conflicts and terrorist activities; embargoes and strikes;

Ÿ developments in international trade;

Ÿ changes in seaborne and other transportation patterns, including the distance cargo is transported by sea;

Ÿ environmental and other regulatory developments;

Ÿ currency exchange rates; and

Ÿ weather.

Factors that influence the supply of vessel capacity include:

Ÿ the number of newbuilding deliveries;

Ÿ the scrapping rate of older vessels;

Ÿ vessel casualties; and

Ÿ the number of vessels that are out of service.

Demand for our dry bulk carriers is dependent upon economic growth in the world's economies, seasonal and regional changes in demand, changes in the capacity of the global dry bulk carrier fleet and the sources and supply of dry bulk cargo transported by sea. Given the large number of new dry bulk carriers currently on order with shipyards, the capacity of the global dry bulk carrier fleet seems likely to increase and economic growth may not resume in areas that have experienced a recession or continue in other areas. Adverse economic, political, social or other developments could have a material adverse effect on our business and operating results.

A further economic slowdown in the Asia Pacific region could exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations.

We anticipate a significant number of the port calls made by our vessels will continue to involve the loading or discharging of dry bulk commodities in ports in the Asia Pacific region. As a result, negative changes in economic conditions in any Asia Pacific country, particularly in China, may exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations, as well as our future prospects. In recent years, China has been one of the world's fastest growing economies in terms of gross domestic product, which has had a significant impact on shipping demand. Through the end of the third quarter of 2008, China's gross domestic product was approximately 2.3% lower than it was during the same period in 2007, and it is likely that China and other countries in the Asia Pacific region will continue to experience slowed or even negative economic growth in the near future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. China has recently announced a $586.0 billion stimulus package aimed in part at increasing investment and consumer spending and maintaining export growth in response to the recent slowdown in its economic growth. Our business, financial condition and results of operations, as well as our future prospects, will likely be materially and adversely affected by a further economic downturn in any of these countries.

Changes in the economic and political environment in China and policies adopted by the government to regulate its economy may have a material adverse effect on our business, financial condition and results of operations.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. Annual and five-year State Plans are adopted by the Chinese government in connection with the development of the economy. State-owned enterprises still account for a substantial portion of the Chinese industrial output; however, the Chinese government is reducing the level of direct control that it exercises over the economy through State Plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Limited price reforms were undertaken with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. If the Chinese government does not continue to pursue a policy of economic reform, the level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, all of which could adversely affect our business, operating results and financial condition.

The market values of our vessels have decreased, which could limit the amount of funds that we can borrow under our credit facilities.

The fair market values of our vessels have generally experienced high volatility. The market prices for secondhand Panamax and Capesize dry bulk carriers are at relatively low levels. You should expect the market value of our vessels to fluctuate depending on general economic and market conditions affecting the shipping industry and prevailing charter hire rates, competition from other shipping companies and other modes of transportation, types, sizes and age of vessels, applicable governmental regulations and the cost of newbuildings. Now that the market value of our fleet has declined, we may not be able to draw down the full amount of our credit facilities and we may not be able to obtain other financing or incur debt on terms that are acceptable to us or at all.

The market values of our vessels have decreased, which could cause us to breach covenants in our credit facilities and adversely affect our operating results.

We believe that the market value of the vessels in our fleet is in excess of amounts required under our credit facilities. However, if the market values of our vessels, which are at relatively low levels, decrease further, we may breach some of the covenants contained in the financing agreements relating to our indebtedness at the time, including covenants in our credit facilities. If we do breach such covenants and we are unable to remedy the relevant breach, our lenders could accelerate our debt and foreclose on our fleet. In addition, if the book value of a vessel is impaired due to unfavorable market conditions or a vessel is sold at a price below its book value, we would incur a loss that could adversely affect our operating results.

A continued downturn in the dry bulk carrier charter market may have an adverse effect on our earnings and our ability to comply with our loan covenants.

The Baltic Exchange Capesize Index, or CS4TC, a daily equally weighted average of the four main Capesize routes declined from a high of approximately $222,800 per day in May 2008 to a low of approximately $2,400 per day in November 2008, which represents a decline of 99%. From November 2008 it rose to approximately $52,700 per day in October 2009, which emphasizes the volatility of this market. The general decline in the dry bulk carrier charter market has resulted in lower charter rates for vessels exposed to the spot market and time charters linked to the CS4TC. Our ability to obtain renewal charters upon the expiration of our current charters or charters for new vessels that we may acquire in the future will be directly impacted by prevailing charter rates.

Dry bulk carrier values have also declined both as a result of a slowdown in the availability of global credit and the significant deterioration in charter rates. Charter rates and vessel values have been affected in part by the lack of availability of credit to finance both vessel purchases and purchases of commodities carried by sea, resulting in a decline in cargo shipments, and the excess supply of iron ore in China which resulted in falling iron ore prices and increased stockpiles in Chinese ports. There can be no assurance as to how long charter rates and vessel values will remain at their currently low levels or whether the recent improvement will continue. Charter rates may remain at low levels for some time which will adversely affect our revenue and profitability and could affect compliance with the covenants in our loan agreements.

In addition, because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels, which may adversely affect our earnings. If we sell vessels at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel's carrying amount in our financial statements, resulting in a loss and a reduction in earnings.

An over-supply of dry bulk carrier capacity may prolong or further depress the current low charter rates and, in turn, adversely affect our profitability.

The market supply of dry bulk carriers has been increasing, and the number of dry bulk carriers on order is near historic highs. Dry bulk newbuildings were delivered in significant numbers starting at the beginning of 2006 and continue to be delivered in significant numbers. As of September 30, 2009, Capesize newbuilding orders had been placed for an aggregate of more than 77% of the current global Capesize fleet, with deliveries expected during the next 36 months. According to market sources, approximately 60% is contracted at established yards, while the other 40% is contracted at yards that are less established and whose viability may be uncertain. Due to lack of financing many analysts expect significant cancellations and/ or slippage of newbuilding orders. While vessel supply will continue to be affected by the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or accidental losses, an over-supply of dry bulk carrier capacity, particularly in conjunction with the currently low level of demand, could exacerbate the recent decrease in charter rates or prolong the period during which low charter rates prevail. If the current low charter rate environment persists, or a further reduction occurs, during a period when the current charters for our dry bulk carriers expire or are terminated, we may only be able to re-charter those vessels at reduced rates or we may not be able to charter our vessels at all.

World events could affect our results of operations and financial condition.

Terrorist attacks in New York on September 11, 2001, in London on July 7, 2005 and in Mumbai on November 26, 2008 and the continuing response of the United States and others to these attacks, as well as the threat of future terrorist attacks in the United States or elsewhere, continues to cause uncertainty in the world's financial markets and may affect our business, operating results and financial condition. The continuing presence of United States and other armed forces in Iraq and Afghanistan may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea and the Gulf of Aden off the coast of Somalia. Any of these occurrences could have a material adverse impact on our operating results, revenues and costs.

Terrorist attacks on vessels, such as the October 2002 attack on the M.V. Limburg, a very large crude carrier not related to us, may in the future also negatively affect our operations and financial condition and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility and turmoil of the financial markets in the United States and globally. Any of these occurrences could have a material adverse impact on our revenues and costs.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Throughout 2008 and 2009, the frequency of piracy incidents against commercial shipping vessels increased significantly, particularly in the Gulf of Aden off the coast of Somalia. For example, in November 2008, the M/V Sirius Star, a tanker vessel not affiliated with us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth $100 million. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones, as the Gulf of Aden temporarily was in May 2008, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including due to employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any of these events may result in loss of revenues, increased costs and decreased cash flows to our customers, which could impair their ability to make payments to us under our charters.

Disruptions in world financial markets and the resulting governmental action in the United States and in other parts of the world could have a material adverse impact on our results of operations, financial condition and cash flows, and could cause the market price of our common stock to further decline.

The United States and other parts of the world are exhibiting deteriorating economic trends and have been in a recession. For example, the credit markets in the United States have experienced significant contraction, deleveraging and reduced liquidity, and the United States federal government and state governments have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

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Recently, a number of financial institutions have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. The uncertainty surrounding the future of the credit markets in the United States and the rest of the world has resulted in reduced access to credit worldwide. As of December 31, 2009, we have total outstanding indebtedness of $282.3 million (of principal balance) under our credit facilities.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. Major market disruptions and the current adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, including proposals to reform the financial system, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations, financial condition or cash flows and could cause the price of our shares to decline significantly or impair our ability to make distributions to our shareholders.

Our operating results are subject to seasonal fluctuations, which could affect our operating results and the amount of available cash with which we could pay dividends, if declared.

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in quarter-to-quarter volatility in our operating results which could affect the amount of dividends, if any, that we may pay to our stockholders from quarter to quarter. The dry bulk carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, our revenues have historically been weaker during the fiscal quarters ended June 30 and September 30, and, conversely, our revenues have historically been stronger in fiscal quarters ended December 31 and March 31. While this seasonality has not materially affected our operating results and cash available for distribution to our stockholders as dividends, it could materially affect our operating results in the future.

Fuel, or bunker prices, may adversely affect profits.

While we generally do not bear the cost of fuel, or bunkers, under our time charters, fuel is a significant, if not the largest, expense in our shipping operations when vessels are under voyage charter. Changes in the price of fuel may adversely affect our profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Further, fuel may become much more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, the International Convention on Civil Liability for Oil Pollution Damage of 1969, the International Convention for the Prevention of Pollution from Ships of 1975, the International Maritime Organization, or IMO, International Convention for the Prevention of Marine Pollution of 1973, the IMO International Convention for the Safety of Life at Sea of 1974, the International Convention on Load Lines of 1966, the U.S. Oil Pollution Act of 1990, or OPA, the U.S. Clean Air Act, U.S. Clean Water Act and the U.S. Marine Transportation Security Act of 2002. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions including greenhouse gases, the management of ballast waters, maintenance and inspection, elimination of tin-based paint, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although we have arranged insurance to cover certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to pay dividends.

We are subject to international safety regulations and the failure to comply with these regulations may subject us to increased liability, may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports.

The operation of our vessels is affected by the requirements set forth in the UN's International Maritime Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. Each of the vessels that has been delivered to us is ISM Code-certified and we expect that each other vessel that we have agreed to purchase will be ISM Code-certified when delivered to us.

In addition, vessel classification societies also impose significant safety and other requirements on our vessels. In complying with current and future environmental requirements, vessel-owners and operators may also incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance.

The operation of our vessels is also affected by other government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country or countries of their registration. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale prices or useful lives of our vessels. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates, and financial assurances with respect to our operations.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.

International shipping is subject to various security and customs inspections and related procedures in countries of origin, destination and trans-shipment points. Inspection procedures may result in the seizure of our vessels, seizure of contents of our vessels, delays in loading, offloading or delivery and the levying of customs duties, fines or other penalties against us.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have a material adverse effect on our business, financial condition and results of operations.

Maritime claimants could arrest one or more of our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a claimant may seek to obtain security for its claim by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of money to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could attempt to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our vessels.

Governments could requisition our vessels during a period of war or emergency, resulting in a loss of earnings.

A government could requisition one or more of our vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes her owner, while requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Although we would be entitled to compensation in the event of a requisition of one or more of our vessels, the amount and timing of payment would be uncertain. Government requisition of one or more of our vessels may negatively impact our revenues and reduce the amount of cash we may have available for distribution as dividends to our stockholders, if any such dividends are declared.

Company Specific Risk Factors

We charter some of our vessels on short-term time charters in a volatile shipping industry and the decline in charter hire rates could affect our results of operations and ability to pay dividends again.

We charter certain of our vessels pursuant to short-term time charters, although we have also entered into long-term time charters ranging in duration from 17 months to 62 months for 13 of the vessels in our fleet and we may in the future employ additional vessels on longer term time charters. Currently, 7 of our vessels are employed on time charters scheduled to expire within the next six months, at which time we expect to enter into new charters for those vessels. Although significant exposure to short-term time charters is not unusual in the dry bulk shipping industry, the short-term time charter market is highly competitive and spot market charter hire rates (which affect time charter rates) may fluctuate significantly based upon available charters and the supply of, and demand for, seaborne shipping capacity. While the short-term time charter market may enable us to benefit in periods of increasing charter hire rates, we must consistently renew our charters and this dependence makes us vulnerable to declining charter rates. As a result of the volatility in the dry bulk carrier charter market, we may not be able to employ our vessels upon the termination of their existing charters at their current charter hire rates. The dry bulk carrier charter market is volatile, and in the recent past, short-term time charter and spot market charter rates for some dry bulk carriers declined below the operating costs of those vessels before rising. We cannot assure you that future charter hire rates will enable us to operate our vessels profitably, or to pay dividends again.

Our earnings, and the amount of dividends if paid in the future, may be adversely affected if we are not able to take advantage of favorable charter rates.

We charter certain of our dry bulk carriers to customers pursuant to short-term time charters that range in duration from 11 to 14 months. However, as part of our business strategy, 13 of our vessels are currently fixed on long-term time charters ranging in duration from 17 months to 62 months. We may extend the charter periods for additional vessels in our fleet, including additional dry bulk carriers or container vessels that we may purchase in the future, to take advantage of the relatively stable cash flow and high utilization rates that are associated with long-term time charters. While we believe that long-term charters provide us with relatively stable cash flows and higher utilization rates than shorter-term charters, our vessels that are committed to long-term charters may not be available for employment on short-term charters during periods of increasing short-term charter hire rates when these charters may be more profitable than long-term charters.

Investment in derivative instruments such as forward freight agreements could result in losses.

From time to time, we may take positions in derivative instruments including forward freight agreements, or FFAs. FFAs and other derivative instruments may be used to hedge a vessel owner's exposure to the charter market by providing for the sale of a contracted charter rate along a specified route and period of time. Upon settlement, if the contracted charter rate is less than the average of the rates, as reported by an identified index, for the specified route and period, the seller of the FFA is required to pay the buyer an amount equal to the difference between the contracted rate and the settlement rate, multiplied by the number of days in the specified period. Conversely, if the contracted rate is greater than the settlement rate, the buyer is required to pay the seller the settlement sum. If we take positions in FFAs or other derivative instruments and do not correctly anticipate charter rate movements over the specified route and time period, we could suffer losses in the settling or termination of the FFA. This could adversely affect our results of operations and cash flows.

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Our board of directors has decided to suspend the payment of cash dividends as a result of market conditions in the international shipping industry. We cannot assure you that our board of directors will reinstate dividends in the future, or when such reinstatement might occur.

As a result of market conditions in the international shipping industry and in order to position us to take advantage of market opportunities, our board of directors, beginning with the fourth quarter of 2008, has suspended our common stock dividend. Our dividend policy will be assessed by the board of directors from time to time. We believe that this suspension will enhance our future flexibility by permitting cash flow that would have been devoted to dividends to be used for opportunities that may arise in the current marketplace, such as funding our operations, acquiring vessels or servicing our debt.

Our policy, historically, was to declare quarterly distributions to stockholders by each February, May, August and November substantially equal to our available cash from operations during the previous quarter after accounting for cash expenses and reserves for scheduled drydockings, intermediate and special surveys and other purposes as our board of directors may from time to time determine are required, and after taking into account contingent liabilities, the terms of our credit facilities, our growth strategy and other cash needs and the requirements of Marshall Islands law. The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things, our earnings, financial condition and cash requirements and availability, our ability to obtain debt and equity financing on acceptable terms as contemplated by our growth strategy and provisions of Marshall Islands law affecting the payment of dividends. In addition, other external factors, such as our lenders imposing restrictions on our ability to pay dividends under the terms of our credit facilities, may limit our ability to pay dividends. Further, we may not be permitted to pay dividends if we are in breach of the covenants contained in our loan agreements.

Our growth strategy contemplates that we will finance the acquisition of additional vessels through a combination of debt and equity financing on terms acceptable to us. If financing is not available to us on acceptable terms, our board of directors may determine to finance or refinance acquisitions with cash from operations, which could also reduce or even eliminate the amount of cash available for the payment of dividends.

Marshall Islands law generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend. We may not have sufficient surplus in the future to pay dividends. We can give no assurance that we will reinstate our dividends in the future or when such reinstatement might occur.

We may have difficulty effectively managing our planned growth, which may adversely affect our earnings.

Since the completion of our initial public offering in March 2005, we have taken delivery of six Panamax dry bulk carriers and eight Capesize dry bulk carriers, and sold one of our Capesize dry bulk carriers. The addition of these vessels to our fleet has resulted in a significant increase in the size of our fleet and imposes significant additional responsibilities on our management and staff. While we expect our fleet to grow further, this may require us to increase the number of our personnel. We will also have to increase our customer base to provide continued employment for the new vessels.

Our future growth will primarily depend on our ability to:

- locate and acquire suitable vessels;

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- identify and consummate acquisitions or joint ventures;
- enhance our customer base;
- manage our expansion; and
- obtain required financing on acceptable terms.

Growing any business by acquisition presents numerous risks, such as undisclosed liabilities and obligations, the possibility that indemnification agreements will be unenforceable or insufficient to cover potential losses and difficulties associated with imposing common standards, controls, procedures and policies, obtaining additional qualified personnel, managing relationships with customers and integrating newly acquired assets and operations into existing infrastructure. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with our future growth.

We cannot assure you that we will be able to borrow amounts under our credit facilities and restrictive covenants in our credit facilities may impose financial and other restrictions on us.

We entered into a $230.0 million secured revolving credit facility with The Royal Bank of Scotland Plc in February 2005, amended in May 2006 to increase the facility amount to $300.0 million. In October 2009, we entered into loan agreements with Deutsche Bank AG and Bremer Landesbank for a loan of $40 million, each, which we used to finance part of the construction cost of our Capesize dry bulk carriers, New York delivered in March 2010 and Houston delivered in October 2009, respectively. As of December 31, 2009, we had $282.3 million outstanding under our facilities. We have used and intend to use our revolving credit facility with The Royal Bank of Scotland Plc in the future to finance future vessel acquisitions and our working capital requirements. Our ability to borrow amounts under our credit facility is subject to the execution of customary documentation relating to the facility, including security documents, satisfaction of certain customary conditions precedent and compliance with terms and conditions included in the loan documents. Prior to each drawdown, we are required, among other things, to provide the lender with acceptable valuations of the vessels in our fleet confirming that the vessels in our fleet have a minimum value and that the vessels in our fleet that secure our obligations under the facilities are sufficient to satisfy minimum security requirements. To the extent that we are not able to satisfy these requirements, including as a result of a decline in the value of our vessels, we may not be able to draw down the full amount under the credit facilities without obtaining a waiver or consent from the lender. We will also not be permitted to borrow amounts under the facilities if we experience a change of control.

The credit facilities also impose operating and financial restrictions on us. These restrictions may limit our ability to, among other things:

- pay dividends or make capital expenditures if we do not repay amounts drawn under our credit facilities, if there is a default under the credit facilities or if the payment of the dividend or capital expenditure would result in a default or breach of a loan covenant;
- incur additional indebtedness, including through the issuance of guarantees;
- change the flag, class or management of our vessels;
- create liens on our assets;

- sell our vessels;
- enter into a time charter or consecutive voyage charters that have a term that exceeds, or which by virtue of any optional extensions may exceed a certain period;
- merge or consolidate with, or transfer all or substantially all our assets to, another person; and
- enter into a new line of business.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may limit our ability to pay any dividends to you, finance our future operations, make acquisitions or pursue business opportunities.

We cannot assure you that we will be able to refinance indebtedness incurred under our credit facilities.

We cannot assure you that we will be able to refinance indebtedness with equity offerings on terms that are acceptable to us or at all. If we are not able to refinance these amounts with the net proceeds of equity offerings on terms acceptable to us or at all, we will have to dedicate a greater portion of our cash flow from operations to pay the principal and interest of this indebtedness than if we were able to refinance such amounts. If we are not able to satisfy these obligations, we may have to undertake alternative financing plans. The actual or perceived credit quality of our charterers, any defaults by them, and the market value of our fleet, among other things, may materially affect our ability to obtain alternative financing. In addition, debt service payments under our credit facilities or alternative financing may limit funds otherwise available for working capital, capital expenditures and other purposes. If we are unable to meet our debt obligations, or if we otherwise default under our credit facilities or an alternative financing arrangement, our lenders could declare the debt, together with accrued interest and fees, to be immediately due and payable and foreclose on our fleet, which could result in the acceleration of other indebtedness that we may have at such time and the commencement of similar foreclosure proceedings by other lenders.

Purchasing and operating secondhand vessels may result in increased operating costs and reduced fleet utilization.

While we have the right to inspect previously owned vessels prior to our purchase of them and we usually inspect secondhand vessels that we acquire, such inspections do not provide us with the same knowledge about their condition that we would have if these vessels had been built for, and operated exclusively by, us. A secondhand vessel may have conditions or defects that we were not aware of when we bought the vessel and which may require us to incur costly repairs to the vessel. These repairs may require us to put a vessel into drydock which would reduce our fleet utilization. Furthermore, we usually do not receive the benefit of warranties on secondhand vessels.

We are subject to certain risks with respect to our counterparties on contracts, and failure of such counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business.

We enter into, among other things, charter parties with our customers. Such agreements subject us to counterparty risks. The ability of each of our counterparties to perform its obligations under a contract with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the maritime and offshore industries, the overall financial condition of the counterparty, charter rates received for specific types of vessels, and various expenses. In addition, in depressed market conditions, our charterers may no longer need a vessel that is currently under charter or may be able to obtain a comparable vessel at lower rates. As a result, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under agreements with us, we could sustain significant losses, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In the highly competitive international shipping industry, we may not be able to compete for charters with new entrants or established companies with greater resources.

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than we do. Competition for the transportation of dry bulk cargo by sea is intense and depends on price, location, size, age, condition and the acceptability of the vessel and its operators to the charterers. Due in part to the highly fragmented market, competitors with greater resources could enter the dry bulk shipping industry and operate larger fleets through consolidations or acquisitions and may be able to offer lower charter rates and higher quality vessels than we are able to offer.

We may be unable to attract and retain key management personnel and other employees in the shipping industry, which may negatively impact the effectiveness of our management and results of operations.

Our success depends to a significant extent upon the abilities and efforts of our management team. We have entered into employment contracts with our Chairman and Chief Executive Officer, Mr. Simeon Palios; our President, Mr. Anastasios Margaronis; our Chief Financial Officer, Mr. Andreas Michalopoulos; and our Executive Vice President, Mr. Ioannis Zafirakis. Our success will depend upon our ability to retain key members of our management team and to hire new members as may be necessary. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining replacement personnel could have a similar effect. We do not currently, nor do we intend to, maintain "key man" life insurance on any of our officers or other members of our management team.

Risks associated with operating ocean-going vessels could affect our business and reputation, which could adversely affect our revenues and stock price.

The operation of ocean-going vessels carries inherent risks. These risks include the possibility of:

- marine disaster;
- terrorism;
- environmental accidents;
- cargo and property losses or damage;
- business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions; and
- piracy.

Any of these circumstances or events could increase our costs or lower our revenues. The involvement of our vessels in an oil spill or other environmental disaster may harm our reputation as a safe and reliable vessel owner and operator.

The shipping industry has inherent operational risks that may not be adequately covered by our insurance.

We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our current insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We can give no assurance that we are adequately insured against all risks or that our insurers will pay a particular claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

Our vessels may suffer damage and we may face unexpected drydocking costs, which could adversely affect our cash flow and financial condition.

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. The loss of earnings while a vessel is being repaired and repositioned, as well as the actual cost of these repairs not covered by our insurance, would decrease our earnings and cash available for dividends, if declared. We may not have insurance that is sufficient to cover all or any of the costs or losses for damages to our vessels and may have to pay drydocking costs not covered by our insurance.

The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Currently, our fleet consists of 14 Panamax dry bulk carriers and 8 Capesize dry bulk carriers having a combined carrying capacity of 2.4 million dead weight tons (dwt) and a weighted average age of 4.8 years. As our fleet ages, we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

We are exposed to U.S. dollar and foreign currency fluctuations and devaluations that could harm our reported revenue and results of operations.

We generate all of our revenues in U.S. dollars but currently incur over half of our operating expenses and the majority of our general and administrative expenses in currencies other than the U.S. dollar, primarily the Euro. Because a significant portion of our expenses is incurred in currencies other than the U.S. dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. dollar and the Euro, which could affect the amount of net income that we report in future periods. While we historically have not mitigated the risk associated with exchange rate fluctuations through the use of financial derivatives, we may employ such instruments from time to time in the future in order to minimize this risk. Our use of financial derivatives would involve certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results.

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Volatility in LIBOR could affect our profitability, earnings and cash flow.

LIBOR may be volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of disruptions in the international markets. Because the interest rates borne by our outstanding indebtedness fluctuate with changes in LIBOR, it would affect the amount of interest payable on our debt, which, in turn, could have an adverse effect on our profitability, earnings and cash flow.

We depend upon a few significant customers for a large part of our revenues and the loss of one or more of these customers could adversely affect our financial performance.

We have historically derived a significant part of our revenues from a small number of charterers. During 2009, approximately 69% of our revenues derived from 4 charterers. During 2008, approximately 31% of our revenues derived from 2 charterers. During 2007, approximately 49% of our revenues derived from 3 charterers. If one or more of our charterers chooses not to charter our vessels or is unable to perform under one or more charters with us and we are not able to find a replacement charter, we could suffer a loss of revenues that could adversely affect our financial condition and results of operations.

We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial obligations.

We are a holding company and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our subsidiaries. As a result, our ability to satisfy our financial obligations depends on our subsidiaries and their ability to distribute funds to us. If we are unable to obtain funds from our subsidiaries, we may not be able to satisfy our financial obligations.

As we expand our business, we may need to improve our operating and financial systems and will need to recruit suitable employees and crew for our vessels.

Our current operating and financial systems may not be adequate as we expand the size of our fleet and our attempts to improve those systems may be ineffective. In addition, as we expand our fleet, we will need to recruit suitable additional seafarers and shoreside administrative and management personnel. While we have not experienced any difficulty in recruiting to date, we cannot guarantee that we will be able to continue to hire suitable employees as we expand our fleet. If we or our crewing agent encounter business or financial difficulties, we may not be able to adequately staff our vessels. If we are unable to grow our financial and operating systems or to recruit suitable employees as we expand our fleet, our financial performance may be adversely affected, among other things.

We may have to pay tax on U.S. source income, which would reduce our earnings.

Under the U.S. Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel-owning or -chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S. source shipping income and such income is subject to a 4% U.S. federal income tax without allowance for deductions, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations.

We expect that we and each of our subsidiaries qualify for this statutory tax exemption for the 2009 taxable year and we will take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption in future years and thereby become subject to U.S. federal income tax on our U.S. source income. For example, at December 31, 2009, our 5% shareholders owned approximately 17.92% of our outstanding stock. There is a risk that we could no longer qualify for exemption under Code section 883 for a particular taxable year if other shareholders with a five percent or greater interest in our stock were, in combination with our existing 5% shareholders, to own 50% or more of our outstanding shares of our stock on more than half the days during the taxable year. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to this exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our U.S.-source shipping income. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings available for distribution to our stockholders. For the 2009 taxable year, we estimate that our maximum U.S. federal income tax liability would be immaterial if we were to be subject to this taxation. Please see the section of this annual report entitled "Taxation" under Item 10E for a more comprehensive discussion of the U.S. federal income tax consequences.

U.S. tax authorities could treat us as a "passive foreign investment company", which could have adverse U.S. federal income tax consequences to U.S. holders.

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. stockholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our current and proposed method of operation, we do not believe that we will be a PFIC with respect to any taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our time chartering activities does not constitute "passive income," and the assets that we own and operate in connection with the production of that income do not constitute passive assets.

There is substantial legal authority supporting this position consisting of case law and U.S. Internal Revenue Service, or IRS, pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept this position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if the nature and extent of our operations changed.

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. stockholders will face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those stockholders make an election available under the Code (which election could itself have adverse consequences for such stockholders), such stockholders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common stock, as if the excess distribution or gain had been recognized ratably over the stockholder's holding period of our common stock. Please see the section of this annual report entitled "Taxation" under Item 10E for a more comprehensive discussion of the U.S. federal income tax consequences if we were to be treated as a PFIC.

Risks Relating to Our Common Stock

There is no guarantee that there will continue to be an active and liquid public market for you to resell our common stock in the future.

The price of our common stock may be volatile and may fluctuate due to factors such as:

- actual or anticipated fluctuations in our quarterly and annual results and those of other public companies in our industry;
- mergers and strategic alliances in the dry bulk shipping industry;
- market conditions in the dry bulk shipping industry;
- changes in government regulation;
- shortfalls in our operating results from levels forecast by securities analysts;
- announcements concerning us or our competitors; and
- the general state of the securities market.

The dry bulk shipping industry has been highly unpredictable and volatile. The market for common stock in this industry may be equally volatile.

We are incorporated in the Marshall Islands, which does not have a well-developed body of corporate law.

Our corporate affairs are governed by our amended and restated articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or the BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the laws of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in the United States. The rights of stockholders of the Marshall Islands may differ from the rights of stockholders of companies incorporated in the United States. While the BCA provides that it is to be interpreted according to the laws of the State of Delaware and other states with substantially similar legislative provisions, there have been few, if any, court cases interpreting the BCA in the Marshall Islands and we cannot predict whether Marshall Islands courts would reach the same conclusions as United States courts. Thus, you may have more difficulty in protecting your interests in the face of actions by the management, directors or controlling stockholders than would stockholders of a corporation incorporated in a United States jurisdiction which has developed a relatively more substantial body of case law.

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Certain existing stockholders will be able to exert considerable control over matters on which our stockholders are entitled to vote.

As of the date of this report Mr. Simeon Palios, our Chairman and Chief Executive Officer, beneficially owns 14,744,597 shares, or approximately 17.99% of our outstanding common stock, the vast majority of which is held indirectly through entities over which he exercises sole voting power. Please see Item 7.A. "Major Stockholders." While Mr. Palios and the non-voting shareholders of these entities have no agreement, arrangement or understanding relating to the voting of their shares of our common stock, they are able to influence the outcome of matters on which our stockholders are entitled to vote, including the election of directors and other significant corporate actions. The interests of these stockholders may be different from your interests.

Future sales of our common stock could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, may depress the market price for our common stock. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future.

Our amended and restated articles of incorporation authorize us to issue up to 200,000,000 shares of common stock, of which as of December 31, 2009, 81,431,696 shares were outstanding. The number of shares of common stock available for sale in the public market is limited by restrictions applicable under securities laws and agreements that we and our executive officers, directors and principal stockholders have entered into.

Anti-takeover provisions in our organizational documents could make it difficult for our stockholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.

Several provisions of our amended and restated articles of incorporation and bylaws could make it difficult for our stockholders to change the composition of our board of directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable.

These provisions include:

- authorizing our board of directors to issue "blank check" preferred stock without stockholder approval;
- providing for a classified board of directors with staggered, three year terms;
- prohibiting cumulative voting in the election of directors;
- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote for the directors;
- prohibiting stockholder action by written consent;

- limiting the persons who may call special meetings of stockholders; and

- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, we have adopted a stockholder rights plan pursuant to which our board of directors may cause the substantial dilution of any person that attempts to acquire us without the approval of our board of directors.

These anti-takeover provisions, including provisions of our stockholder rights plan, could substantially impede the ability of public stockholders to benefit from a change in control and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

Item 4. Information on the Company

A. History and development of the Company

Diana Shipping Inc. is a holding company incorporated under the laws of Liberia in March 1999 as Diana Shipping Investments Corp. In February 2005, the Company's articles of incorporation were amended. Under the amended articles of incorporation, the Company was renamed Diana Shipping Inc. and was redomiciled from the Republic of Liberia to the Marshall Islands. Our executive offices are located at Pendelis 16, 175 64 Palaio Faliro, Athens, Greece. Our telephone number at this address is +30-210-947-0100. Our agent and authorized representative in the United States is our wholly-owned subsidiary, Bulk Carriers (USA) LLC, established in September 2006, in the State of Delaware, which is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

Business Development and Capital Expenditures and Divestitures

In February 2007, we entered into a memorandum of agreement to acquire one newly built Capesize dry bulk carrier, the Semirio that was under construction at the Shanghai Waigaoqiao Shipbuilding Co. Ltd., in China, for the price of $98.0 million. We paid a 20% advance, amounting to $19.6 million, on signing of the agreement and the balance of the purchase price of $78.4 million was paid on the delivery of the vessel to us in June 2007. We financed $92.0 million of the purchase price with proceeds from our revolving credit facility with the Royal Bank of Scotland and the remaining balance with cash on hand.

In February 2007, we entered into a memorandum of agreement to sell the Pantelis SP for the price of $81.0 million less 2.5% commission. On signing of the agreement, the buyers of the vessels paid a 10% advance of the purchase price, amounting to $8.1 million, which was released to us together with the balance of the purchase price on delivery of the vessel to its new buyers in July 2007. We used the proceeds from the sale of the Pantelis SP to repay $90.0 million of the then outstanding debt with the Royal Bank of Scotland amounting to $109.0 million.

In March 2007, we entered into a memorandum of agreement to acquire one secondhand Capesize dry bulk carrier, the Aliki, for the price of $110.0 million. We paid a 10% advance, amounting to $11.0 million, on signing of the agreement with cash on hand. The balance of the purchase price, amounting to $99.0 million, was paid on the delivery of the vessel to us in April 2007 and was partly funded with an $87.0 million loan drawn under our revolving credit facility with the Royal Bank of Scotland.

In April 2007, we completed a public offering of an aggregate of 9,825,500 shares of our common stock at a price of $17.00 per share, resulting in net proceeds to us of $159.3 million. In the same offering, certain of our shareholders sold an additional 2,250,000 shares of our common stock, for which we did not receive any proceeds. As described below, we used a portion of the net proceeds of this offering to repay outstanding indebtedness and we used the balance to fund a portion of the acquisition costs of the vessels Semirio and Aliki.

In April 2007, we drew down an amount of $22.0 million under our revolving credit facility to fund part of the advances paid for the vessels Semirio and Aliki. During the same month, we repaid in full the then outstanding balance under our revolving credit facility with the Royal Bank of Scotland, amounting to $136.6 million plus interest and costs, partly with the proceeds of our public offering that was completed in the same month.

In April 2007, we entered into a memorandum of agreement to acquire one newly built Capesize dry bulk carrier, the Boston, for the purchase price of $110.0 million. On signing of the agreement, we paid a 20% advance, amounting to $22.0 million, with available cash on hand and, in May 2007, we drew down an amount of $22.0 million under our revolving credit facility to finance the advance. We paid the balance of the purchase price of $88.0 million on the vessel's delivery to us in November 2007, with the proceeds from our September 2007 public offering, discussed below.

In September 2007, we completed a public offering of an aggregate of 11,500,000 shares of common stock at a price of $25.00 per share, resulting in net proceeds to us of $273.7 million. We used a portion of the net proceeds of this offering to repay the $100.8 million outstanding under our revolving credit facility with the Royal Bank of Scotland, plus interest and costs. We also used a portion of the proceeds of this offering to fund a portion of the purchase price of the Boston.

In October 2007, we entered into a Memorandum of Agreement to acquire one secondhand Capesize dry bulk carrier, the Salt Lake City, for a total consideration of $140.0 million. On signing of the agreement, we paid 20% of the respective purchase price amounting to $28.0 million. The balance of the purchase price was paid on the delivery of the vessel to us in December 2007. In December 2007, we drew down an amount of $75.0 million under our revolving credit facility with the Royal Bank of Scotland to finance part of the purchase price of the Salt Lake City.

In October 2007, we entered into a Memorandum of Agreement to acquire one secondhand Capesize dry bulk carrier, the Norfolk, for a total consideration of $135.0 million. On signing of the agreement, we paid 20% of the purchase price amounting to $27.0 million. The balance of the purchase price was paid on the delivery of the vessel to us in February 2008.

During 2008, we drew down an aggregate amount of $237.2 million under our revolving $300 million credit facility with the Royal Bank of Scotland and repaid an aggregate amount of $97.5 million. On December 31, 2008 an amount of $214.7 million was outstanding under the revolving credit facility, which was used to fund part of the purchase cost of the Salt Lake City and the Norfolk.

On April 13, 2009, we entered into agreements with the shipbuilders, Shanghai Jiangnan-Changxing Shipbuilding Co. Ltd., and Gala Properties Inc. ("Gala"), a related party controlled by the two daughters of our Chairman and Chief Executive Officer under which we:

- acquired Gala, that had a contract with the China Shipbuilding Trading Company, Limited and Shanghai Jiangnan-Changxing Shipbuilding Co. Ltd., for the construction of the Houston, for a contract price of $60.2 million, as amended, in exchange for our ownership interest in our former subsidiary Eniwetok Shipping Company Inc., which had a contract with the shipbuilders for the construction of Hull H1108 ("the Eniwetok contract"); and

- acquired the charter party, which Gala had already entered into for Houston with Jiangsu Shagang Group Co. ("Shagang") or its nominee (with performance guaranteed by Shagang) providing for a gross charter hire rate of $55,000 per day for a period of a minimum of 59 months and a maximum of 62 months for a consideration of $15.0 million.

In April 2009, we entered into a supplemental loan agreement with Fortis Bank to amend and restate the existing loan agreement, so as to include Gala, as a borrower. Pursuant to the supplemental loan agreement and the amended and restated loan agreement, the bank consented to (i) the termination of the Eniwetok Contract; (ii) the amendment of the purpose of the loan facility made available under the principal agreement such that its purpose includes the financing of part of the construction and acquisition cost of the Houston; and (iii) certain amendments to the terms of the principal agreement and the corporate guarantee. Under the amended and restated agreement, the bank also agreed to reduce the shareholding required to be beneficially owned by the Palios' and Margaronis' families from 20% to 10%.

In 2009, we drew down an aggregate amount of $ 30,100 under the loan facility with Fortis Bank to finance part of the first and the second instalment of the construction cost of the Houston, and the second and third instalment of the construction cost of the New York. After delivery of the Houston, in October 2009, the Company repaid $30.1 million of the outstanding loan and drew down $40.0 million under our loan facility with Bremer Landesbank.

In May 2009, we completed a secondary public offering in the United States under the Securities Act, of 6,000,000 shares of common stock at a price of $16.85 per share from which we received $98.4 million of net proceeds.

In December 2009, we, through our wholly owned subsidiary Taka Shipping Company Inc. ("Taka"), entered into a Memorandum of Agreement with an unrelated third party to acquire the 76,436 dwt Panamax dry bulk carrier "Melite" (built 2004) for a total consideration of $35.1 million of which a 10% advance or $3.5 million was paid in December 2009 and the balance of $31.6 million was paid in January 2010 when the vessel was delivered. The acquisition cost of the vessel was funded with funds drawn under our revolving credit facility with the Royal Bank of Scotland.

In January 2010, we established our wholly-owned subsidiary Diana Containerships Inc., or DCI, with the purpose of acquiring containerships.

In March 2010, we took delivery of the New York and repaid $30.1 million under our loan agreement with Fortis Bank and therefore, our loan with Fortis Bank was terminated. We financed $40.0 million of the acquisition cost of the New York with funds drawn under our facility with Deutsche Bank AG.

B. Business overview

We are a global provider of shipping transportation services. We specialize in transporting dry bulk cargoes, including such commodities as iron ore, coal, grain and other materials along worldwide shipping routes. Currently, our fleet consists of 22 dry bulk carriers, of which 14 are Panamax and 8 are Capesize dry bulk carriers, having a combined carrying capacity of approximately 2.4 million dwt.

As of December 31, 2009, our fleet consisted of 13 modern Panamax dry bulk carriers and 7 Capesize dry bulk carriers that had a combined carrying capacity of approximately 2.2 million dwt and a weighted average age of 4.9 years. As of December 31, 2008, our fleet consisted of 13 modern Panamax dry bulk carriers and 6 Capesize dry bulk carriers that had a combined carrying capacity of approximately 2.0 million dwt and a weighted average age of 4.3 years. As of December 31, 2007, our fleet consisted of 13 modern Panamax dry bulk carriers and 5 Capesize dry bulk carriers that had a combined carrying capacity of approximately 1.8 million dwt and a weighted average age of 3.4.

During 2009, 2008 and 2007, we had a fleet utilization of 98.9%, 99.6% and 99.3%, respectively, our vessels achieved daily time charter equivalent rates of $32,811, $46,777 and $31,272, respectively, and we generated revenues of $239.3 million, $337.4 million and $190.5 million, respectively.

The following table presents certain information concerning the dry bulk carriers in our fleet, as of March 29, 2010.

Vessel BUILT DWT	Sister Ships*	Gross Rate (USD Per Day)	Com**	Charterer	Delivery Date to Charterer	Redelivery Date to Owners***
			Panamax Vessels			
CORONIS		14,000	5.00%	TPC Korea Co. Ltd., Seoul	26/Mar/2009	26/Feb/2010 - 7/Apr/20107
	C					
2006 74,381		24,000	5.00%	Siba Ships Asia Pte. Ltd.	7/Apr/20107	7/Feb/2012 - 22/May/201212
ERATO		15,000	5.00%	Cargill International S.A., Geneva	27/Dec/2008	4/Mar/2010
	C	20,500	5.00%	C Transport Panamax Ltd., Isle of Man	4/Mar/2010	4/Dec/2011 - 4/Mar/2012
2004 74,444						
NAIAS	B	19,000	4.75%	J. Aron & Company, New York	24/Aug/2009	24/Ju1/2010 - 24/Sep/2010
2006 73,546						
CLIO	B	11,000	5.00%	Cargill International S.A., Geneva	26/Feb/2009	15/Feb/2010 - 12/Apr/20107'"
2005 73,691						
CALIPSO8	B	9,400	5.00%	Cargill International S.A., Geneva	24/Jan/2009	3/Mar/2010 - 4/Apr/2010
2005 73,691		30,500	5.00%		4/Apr/2010	4/Sep/2010 - 19/Nov/2010
PROTEFS	B	59,000	5.00%	Hanjin Shipping Co. Ltd., Seoul	18/Sep/2008	18/Aug/2011 - 18/Nov/2011
2004 73,630						
THETIS		10,500	5.00%	Cargill International S.A., Geneva	12/Jan/2009	6/Mar/2010
	B					
2004 73,583		23,000	5.00%	Glencore Grain BV, Rotterdam	6/Mar/2010	6/Feb/2011 - 21/Apr/2011

Vice-president,

DIONE **resources division** **2009** **462,510** **954,335**

	2008	398,418	915,918	186,443
C.W. Erickson (a)	**2009**	**452,232**	**954,335**	**119,91**
Vice-president				
and general				
manager, refining	2008	394,864	999,183	196,14
and supply				
S.M. Smith	**2009**	**397,750**	**1,158,360**	**129,55**
Vice-president				
and general				
manager, fuels	2008	374,000	1,006,500	197,89
marketing				

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Footnotes to the Summary compensation table for named executive officers on the preceding page

a) B.H. March, R.L. Broiles and C.W. Erickson have been on a loan assignment from Exxon Mobil Corporation since January 1, 2008, July 1, 2005 and June 1, 2007 respectively. Their compensation is paid directly by Exxon Mobil Corporation in U.S. dollars, but is disclosed in Canadian dollars. They also receive 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 them. All amounts paid to B.H. March, R.L. Broiles and C.W. Erickson in U.S. dollars were converted to Canadian dollars at the average 2009 exchange rate of 1.142. In 2008, the average exchange rate was 1.066.

b) The grant date fair value equals the number of restricted stock units multiplied by the closing price of the company s shares on the date of grant. The closing price of the company s shares on the grant date in 2009 was $39.40, which is the same as the accounting fair value for the restricted stock units on the date of grant. The closing price of the company s shares on the grant date in 2008 was $36.60, which is the same as the accounting fair value for the restricted stock units on the date of grant. The company chose this method of valuation as it believes it results in the most accurate representation of fair value. In 2009, R.L. Broiles and C.W. Erickson, received Exxon Mobil Corporation restricted stock units. These values are based on the closing price of Exxon Mobil Corporation shares on the date of grant ($75.97 U.S.), multiplied by the number of units granted. This amount was converted to Canadian dollars at the average 2009 exchange rate of 1.142. In 2008, the average exchange rate was 1.066 and the closing price of Exxon Mobil Corporation shares on the date of grant was $78.11 U.S.

c) The company has not granted stock options since 2002. The stock option plan is described starting on page 44.

d) The amounts listed in Annual incentive plans column for each named executive officer represent their 2009 cash bonus. Any part of bonus elected to be received as deferred share units would be excluded, although no named executive officers so elected.

e) The amounts listed in the Long-term incentive plans column represent earnings bonus units payout. These are paid when the maximum settlement value (trigger) or cumulative earnings per share is achieved or after three years if such value is not achieved. The plan is described starting on page 32. B.H. March, R.L. Broiles and C.W. Erickson received earnings bonus units under Exxon Mobil Corporation s program, which is similar to the company s plan. Their payouts are also subject to the maximum settlement value (trigger) or cumulative earnings per share. There was no earnings bonus unit payout in 2009 for any named executive officer.

f) Pension value is the Compensatory change in pensions as of December 31, 2009 as set out in the Pension plan benefits table on page 35.

g) Amounts under All other compensation , include dividend equivalent payments on restricted stock units granted, company savings plans contributions, other compensation and cost of perquisites including club memberships, financial counselling allowance (for P.A. Smith and S.M. Smith only), any costs associated with the personal use of the company aircraft, parking and security. There was no personal use of the company aircraft in 2009. The financial counselling allowance in 2009 was $25,000 for P.A. Smith and $20,000 for S.M. Smith. For each named executive officer, the aggregate value of perquisites received was not greater than $50,000 or 10 percent of the named executive officer s base salary. While already factored into valuation of share-based awards, it is noted that in 2009, the actual dividend equivalent payments made were $73,580 for P.A. Smith, $62,925 for S.M. Smith and $12,990 for B.H. March. The dividend equivalent payments on restricted stock granted by Exxon Mobil Corporation in previous years were $84,833 for B.H. March, $102,369 for R.L. Broiles and $101,374 for C.W. Erickson. These amounts were converted to Canadian dollars at the average 2009 exchange rate of 1.142. In 2008, the average exchange rate was 1.066. The total under the All other compensation column for B.H. March, R.L. Broiles and C.W. Erickson consists mainly of expatriate allowances and tax reimbursement costs associated with their assignment in Canada. The latter were higher in 2009 as a result of differences in timing of the amounts paid resulting from the adoption in 2009 of a revised method of tax equalization.

h) Total compensation for 2009 consists of the total dollar value of Salary , Share-based awards , Option-based awards , Non-equity incentive plan compensation Pension value and All other compensation .

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Outstanding share-based awards and option-based awards for named executive officers

The following table sets forth all share-based and option-based awards outstanding as at December 31, 2009 for each of the named executive officers of the company.

	Option-based awards				Share-based awards	
Name	Number of securities underlying unexercised options (#) (d)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($)	Number of shares or units of shares that have not vested (#) (e)	Market or payout value of share-based awards that have not vested ($) (e)
B.H. March (a)					**86,600**	**3,521,156**
P.A. Smith	**75,000**	**15.50**	**April 29, 2012**	**1,887,000**	**164,750**	**6,698,735**
R.L. Broiles (b)						
C.W. Erickson (c)						
S.M. Smith	**0**			**0**	**159,250**	**6,475,105**

a) In 2001 and previous years, B.H. March participated in Exxon Mobil Corporation s stock option plan. Under that plan, at December 31, 2009, B.H. March held options to acquire 18,549 Exxon Mobil Corporation shares, of which all options were exercisable. The value of B.H. March s exercisable options was $542,578 as at December 31, 2009, based on the closing price of Exxon Mobil Corporation common shares of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada. B.H. March was granted restricted stock units in 2008 and 2009 under the company s plan. With respect to previous years, B.H. March participated in Exxon Mobil Corporation s restricted stock plan, which is similar to the company s restricted stock unit plan. Under that plan, B.H. March held 35,550 restricted shares whose value on December 31, 2009 was $2,537,120 based on a closing price for Exxon Mobil Corporation shares on December 31, 2009 of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada.

b) In 2001 and previous years, R.L. Broiles participated in Exxon Mobil Corporation s stock option plan. Under that plan, at December 31, 2009, R.L. Broiles held options to acquire 56,398 Exxon Mobil Corporation shares, of which all options were exercisable. The value of R.L. Broiles exercisable options was $1,610,172 as at December 31, 2009, based on the closing price of Exxon Mobil Corporation common shares of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada. 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 held 54,500 restricted shares whose value on December 31, 2009 was $3,889,537 based on a closing price for Exxon Mobil Corporation shares on December 31, 2009 of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada.

c) In 2001 and previous years, C.W. Erickson participated in Exxon Mobil Corporation s stock option plan. Under that plan, at December 31, 2009, C.W. Erickson held options to acquire 8,810 Exxon Mobil Corporation shares, of which all options were exercisable. The value of C.W. Erickson s exercisable options was $240,711 as at December 31, 2009, based on the closing price of Exxon Mobil Corporation common shares of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada. C.W. Erickson participates in Exxon Mobil Corporation s restricted stock plan, which is similar to the company s restricted stock unit plan. Under that plan, C.W. Erickson holds 55,275 restricted shares whose value on December 31, 2009 was $3,944,847 based on a closing price for Exxon Mobil Corporation shares on December 31, 2009 of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada.

d) Represents the number of shares underlying options and three times the number of stock options granted in 2002 before the three-for-one share split in May 2006 and still held by the employee.

e) Represents the total of the restricted stock units received in 2006, 2007, 2008 and 2009 after the three-for-one share split in May 2006, plus three times the number of restricted stock units received before the share split and still held by the employee. The value is based on the closing price of the company s shares on December 31, 2009 of $40.66.

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Incentive plan awards for named executive officers Value vested or earned during the year

The following table sets forth the value of the incentive plan awards that vested for each named executive officer of the company for the year.

Name	Option-based awards Value vested during the year ($)	Share-based awards Value vested during the year ($) (d)	Non-equity incentive plan compensation Value earned during the year ($) (e)
B.H. March (a)		**0**	
P.A. Smith		**1,454,178**	**106,513**
R.L. Broiles (b)			
C.W. Erickson (c)			
S.M. Smith		**1,163,743**	**129,555**

a) Although B.H. March received restricted stock units under the company s plan in 2008 and 2009, none of these restricted stock units have vested. In previous years B.H. March participated in Exxon Mobil Corporation s restricted stock plan under which the grantee may receive restricted stock or restricted stock units (both of which are referred to herein as restricted stock or restricted shares), which plan is similar to the company s restricted stock unit plan. In 2009, restrictions were removed on 9,200 restricted stock having a value as at December 31, 2009 of $656,582 based on the closing price of Exxon Mobil Corporation common shares of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada. B.H. March received an annual bonus from Exxon Mobil Corporation in 2009 and participates in Exxon Mobil Corporation s earnings bonus unit plan, which is similar to the company s earnings bonus unit plan. B.H. March received $183,862 with respect to annual bonus awarded in 2009 which amount was paid in U.S. dollars and is converted to Canadian dollars at the average 2009 exchange rate of 1.142.

b) R.L. Broiles participates in Exxon Mobil Corporation s restricted stock plan under which the grantee may receive restricted stock, which plan is similar to the company s restricted stock unit plan. In 2009, restrictions were removed on 10,500 restricted stock having a value as at December 31, 2009 of $749,360 based on the closing price of Exxon Mobil Corporation common shares of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada. R.L. Broiles received an annual bonus from Exxon Mobil Corporation in 2009 and participates in Exxon Mobil Corporation s earnings bonus unit plan, which is similar to the company s earnings bonus unit plan. R.L. Broiles received $119,910 with respect to annual bonus awarded in 2009, which amount was paid in U.S. dollars and is converted to Canadian dollars at the average 2009 exchange rate of 1.142.

c) C.W. Erickson participates in Exxon Mobil Corporation s restricted stock plan under which the grantee may receive restricted stock, which plan is similar to the company s restricted stock unit plan. In 2009, restrictions were removed on 9,200 restricted stock having a value as at December 31, 2009 of $656,582 based on the closing price of Exxon Mobil Corporation common shares of $68.19 U.S., which was converted to Canadian dollars at the noon-rate for December 31, 2009 of 1.0466 provided by the Bank of Canada. C.W. Erickson received an annual bonus from Exxon Mobil Corporation in 2009 and participates in Exxon Mobil Corporation s earnings bonus unit plan, which is similar to the company s earnings bonus unit plan. C.W. Erickson received $119,910 with respect to annual bonus awarded in 2009, which amount was paid in U.S. dollars and is converted to Canadian dollars at the average 2009 exchange rate of 1.142.

d) These values show restricted stock units that vested in 2009.

e) These values show annual bonus received in 2009.

Details of former long-term incentive compensation plans

The following describes forms of long-term incentive compensation formerly used by the company. While incentive share units and stock options are no longer granted, incentive share units and stock options formerly granted continue to remain outstanding and are referenced in the foregoing tables.

Incentive share units

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. The last grant expires in 2011.

Stock option plan

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 select 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 on April 29, 2012. As of February 12, 2010, there have been 5,393,340 common shares issued upon exercise of stock options and 4,237,260 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 1.1 percent of the company s currently outstanding common shares. The company s directors, officers and vice-presidents as a group hold 4.6 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 150,000 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.

Directors compensation program

Philosophy and objectives

Director compensation elements are designed to:

- ensure alignment with long-term shareholder interests;
- provide motivation to promote sustained improvement in the company s business performance and shareholder value;
- ensure the company can attract and retain outstanding director candidates who meet the selection criteria outlined in Section 9 of the Board of Directors Charter;
- recognize the substantial time commitments necessary to oversee the affairs of the company; and
- support the independence of thought and action expected of directors.

Nonemployee director compensation levels are reviewed by the nominations and corporate governance committee each year, and resulting recommendations are presented to the full board for approval.

Employees of the company or Exxon Mobil Corporation receive no extra pay for serving as directors. Nonemployee directors receive compensation consisting of cash and restricted stock units. Since 1999, the nonemployee directors have been able to receive all or part of their cash directors fees in the form of deferred share units. 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. The deferred share unit plan is described in more detail on page 46.

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Compensation decision making process and considerations

The nominations and corporate governance committee relies on market comparisons with a group of 21 major Canadian companies with national and international scope and complexity. The company draws its nonemployee directors from a wide variety of industrial sectors, so a broad sample is appropriate for this purpose. The nominations and corporate governance committee does not target any specific percentile among comparator companies at which to align compensation for this group, but rather considers current developments and practices in director compensation elements based on analysis of published management proxy circulars completed every two years. The 21 comparator companies included in the benchmark sample are as follows:

Comparator companies Nonemployee directors

Bank of Montreal	Canadian Pacific Railway Limited	Royal Bank of Canada
Bank of Nova Scotia	EnCana Corporation	Sun Life Financial Inc.
BCE Inc.	George Weston Limited	Suncor Energy Inc.
Bombardier Inc.	Manulife Financial Corporation	TELUS Corporation
Canadian Imperial Bank of Commerce	Petro-Canada	Thomson Reuters Corporation
Canadian National Railway Company	Potash Corporation	The Toronto-Dominion Bank
Canadian Natural Resources Limited	Power Financial Corporation	TransCanada Corporation

Directors compensation details and components

In 2009, the base cash retainer for nonemployee directors was $100,000 per year. Nonemployee directors were paid $20,000 for membership on all board committees. Additionally, each board committee chair received a retainer of $10,000 for each committee chaired. Nonemployee directors were not paid a fee for attending board and committee meetings on each of the eight regularly-scheduled meeting days. However, they were eligible to receive a fee of $2,000 per board or committee meeting occurring on any other day. Two board meetings occurred outside of the eight regularly-scheduled meeting days.

The following table shows the portion of the annual retainer for board membership, annual retainer for committee membership and annual retainer for committee chair which each nonemployee director elected to receive in cash and deferred share units in 2009.

percent	Election for 2009 director fees in cash	Election for 2009 director fees in deferred share units
K.T. Hoeg	**0**	**100**
J.M. Mintz	**0**	**100**
R. Phillips	**0**	**100**
S.D. Whittaker	**0**	**100**
V.L. Young	**75**	**25**

The number of deferred share units granted to a nonemployee director is determined at the end of each calendar quarter for that year by dividing (i) the dollar amount of the nonemployee director s fees for that calendar quarter that the director elected to receive as deferred share units by (ii) the average of the closing price of the company s shares on the Toronto Stock Exchange for the five consecutive trading days (average closing price) immediately prior to the last day of that calendar quarter. Those deferred share units are granted effective the last day of that calendar quarter.

A nonemployee director is granted additional deferred share units in respect of the unexercised deferred share units on the dividend payment dates for the common shares of the company. The number of such additional deferred share units is determined for each cash dividend payment date by (i) dividing the cash dividend payable for a common share of the company by the average closing price immediately prior to the payment date for that dividend and then (ii) multiplying that resultant number by the number of unexercised deferred share units held by the nonemployee directors on the record date for the determination of shareholders entitled to receive payment of such cash dividend.

A nonemployee director may only exercise these deferred share units after termination of service as a director of the company, including termination of service due to death. No deferred share units, granted to a nonemployee director, may be exercised unless all of the deferred share units are exercised on the same date.

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In addition to the cash fees described above, the company pays a significant portion of director compensation in restricted stock units to align director compensation with the long-term interests of shareholders. Restricted stock units are awarded annually with 50 percent vesting in cash three years from the date of grant and the remaining 50 percent vesting on the seventh anniversary of the grant date. Directors can elect to receive one common share for each unit or a cash payment for the units to be exercised on the seventh anniversary of the date of grant of the restricted stock units. The vesting periods are not accelerated upon separation or retirement from the board, except in the event of death. The restricted stock unit plan is described in more detail starting on page 32. In 2009, each nonemployee director received an annual grant of 2,000 restricted stock units.

In contrast to the forfeiture provisions for restricted stock units held by employees of the company, the restricted stock units awarded to nonemployee directors are not subject to risk of forfeiture at the time a director leaves the company s board. This provision is designed to reinforce the independence of these board members. However, while on the board and for a 24-month period after leaving the company s board, restricted stock units may be forfeited if the nonemployee director engages in direct competition with the company or otherwise engages in any activity detrimental to the company. The board agreed that the word detrimental shall not include any actions taken by a nonemployee director or former nonemployee director who acted in good faith and in the best interest of the company.

Components of directors compensation

irector	Annual retainer for board membership ($)	Annual retainer for committee membership ($)	Annual retainer for committee chair ($)	Restricted stock units (RSU) (#)	Fee for board and committee meetings not regularly scheduled		Total cash ($) (a)	Total deferred share units (DSU) ($) (b)	Total restricted stock units ($) (c)	All other compen-sation ($) (d)	Total compen-sation ($)
					Number of non-regularly scheduled meetings attended (#)	Fee ($2,000 x number of non-regularly scheduled meetings attended) ($)					
T. eg	**100,000**	**20,000**	**10,000 (IOF)**	**2,000**	**2**	**4,000**	**4,000**	**130,000**	**78,800**	**1,816**	**214,616**
M. intz	**100,000**	**20,000**	**10,000 (EH&S)**	**2,000**	**2**	**4,000**	**4,000**	**130,000**	**78,800**	**5,731**	**218,531**
	100,000	**20,000**	**10,000**	**2,000**	**2**	**4,000**	**4,000**	**130,000**	**78,800**	**12,560**	**225,360**

illips			(ERC)								
D. hittaker	100,000	20,000	10,000 (N&CG)	2,000	2	4,000	4,000	130,000	78,800	18,857	231,657
L. oung	100,000	20,000	10,000 (AC)	2,000	2	4,000	101,500	32,500	78,800	7,536	220,336

a) Total cash is the portion of the Annual retainer for board membership , Annual retainer for committee membership and Annual retainer for committee chair which the director elected to receive as cash, plus the Fee for board and committee meetings not regularly scheduled . This amount is reported as Fees earned in the Director compensation table on page 48.

b) Total deferred share units is the portion of the Annual retainer for board membership , Annual retainer for committee membership , and Annual retainer for committee chair , which the director elected to receive as deferred share units, as set out in the previous table on page 46. This amount plus the Total restricted stock units amount is shown as Share-based awards in the Director compensation table on page 48.

c) 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, which was $39.40.

d) Amounts under All other compensation consist of dividend equivalent payments on unexercised restricted stock units, the value of additional deferred share units granted in lieu of dividends on unexercised deferred share units and security provided for directors. In 2009, K.T. Hoeg received $600 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $1,216 in lieu of dividends on deferred share units. J.M. Mintz received $3,350 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $1,670 in lieu of dividends on deferred share units. R. Phillips received $5,000 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $7,560 in lieu of dividends on deferred share units. S.D. Whittaker received $5,000 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $13,857 in lieu of dividends on deferred share units. V.L. Young received $5,000 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $2,536 in lieu of dividends on deferred share units.

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Director compensation table

The following table summarizes the compensation paid, payable, awarded or granted for 2009 to each of the nonemployee directors of the company.

Name (a)	Fees earned ($) (c)	Share-based awards ($) (d)	Option-based awards ($)	Non-equity incentive plan compensation ($)	Pension value (#)	All other compensation ($) (e)	Total ($)
K.T. Hoeg (b)	**4,000**	**208,800**				**1,816**	**214,616**
J.M. Mintz (b)	**4,000**	**208,800**				**5,731**	**218,531**
R. Phillips (b)	**4,000**	**208,800**				**12,560**	**225,360**
S.D. Whittaker (b)	**4,000**	**208,800**				**18,857**	**231,657**
V.L. Young (b)	**101,500**	**111,300**				**7,536**	**220,336**

a) As directors employed by the company or Exxon Mobil Corporation, B.H. March, P.A. Smith and R.C. Olsen did not receive compensation for acting as directors.

b) 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.

c) Represents all fees awarded, earned, paid or payable in cash for services as a director, including retainer fees, committee, chair and meeting fees.

d) 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 dollar value of deferred share units shown is the value of the portion of the Annual retainer for board membership , Annual retainer for committee membership and Annual retainer for committee chair which the director elected to receive as deferred share units as noted on page 46.

e) Amounts under All other compensation consist of dividend equivalent payments on unexercised restricted stock units, the value of additional deferred share units granted in lieu of dividends on unexercised deferred share units and security provided for directors. In 2009, K.T. Hoeg received $600 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $1,216 in lieu of dividends on deferred share units. J.M. Mintz received $3,350 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $1,670 in lieu of dividends on deferred share units. R. Phillips received $5,000 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $7,560 in lieu of dividends on deferred share units. S.D. Whittaker received $5,000 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $13,857 in lieu of dividends on deferred share units. V.L. Young received $5,000 in dividend equivalent payments on restricted stock units and additional deferred share units valued at $2,536 in lieu of dividends on deferred share units.

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Outstanding share-based awards and option-based awards for directors

The following table sets forth all outstanding awards held by nonemployee directors of the company as at December 31, 2009 and does not include common shares owned by the director.

	Option-based awards				Share-based awards	
Name (a)	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($)	Number of shares or units of shares that have not vested (#) (b)	Market or payout value of share-based awards that have not vested ($) (c)
K.T. Hoeg					**9,005**	**366,143**
J.M. Mintz					**15,147**	**615,877**
R. Phillips					**32,958**	**1,340,072**
S.D. Whittaker					**48,795**	**1,984,005**
V.L. Young					**18,864**	**767,010**

a) As directors employed by the company or Exxon Mobil Corporation, B.H. March, P.A. Smith and R.C. Olsen did not receive compensation for acting as directors.
b) Includes restricted stock units and deferred share units held as of December 31, 2009.
c) Value is based on the closing price of the company s shares on December 31, 2009, which was $40.66.

Incentive plan awards for directors Value vested or earned during the year

The following table sets forth the value of the awards that vested or were earned by each nonemployee director of the company in 2009.

Name (a)	Option-based awards Value vested during the year ($)	Share-based awards Value vested during the year ($)	Non-equity incentive plan compensation Value earned during the year ($)
K.T. Hoeg		**0**	
J.M. Mintz (b)		**60,090**	
R. Phillips (c)		**105,158**	
S.D. Whittaker (c)		**105,158**	
V.L. Young (c)		**105,158**	

a) As directors employed by the company or Exxon Mobil Corporation, B.H. March, P.A. Smith and R.C. Olsen did not receive compensation for acting as directors.
b) Includes restricted stock units granted in 2006 and vesting in 2009.
c) Includes restricted stock units granted in 2002 and vesting in 2009 and restricted stock units granted in 2006 and vesting in 2009.

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Share ownership guidelines 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 from the date of appointment to the board. 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.

Director	Director since	Amount acquired since last report (February 14, 2009 to February 12, 2010)	Total holdings (includes common shares, deferred share units and restricted stock units)	Total at-risk value of total holdings (b)	Minimum shareholding requirement	Minimum requirement met or date required to achieve minimum requirement
K.T. Hoeg	**May 1, 2008**	**5,074**	**9,005**	**355,157**	**15,000**	**May 1, 2013**
B.H. March (a)	**January 1, 2008**	**43,300**	**91,600**	**3,612,704**	**15,000**	**Minimum requirement met**
J.M. Mintz	**April 21, 2005**	**3,584**	**16,147**	**636,838**	**15,000**	**Minimum requirement met**
R.C. Olsen	**May 1, 2008**	**3,000**	**6,000**	**236,640**	**15,000**	**May 1, 2013**
R. Phillips	**April 23, 2002**	**2,597**	**41,958**	**1,654,824**	**15,000**	**Minimum requirement met**
P.A. Smith	**February 1, 2002**	**2,577**	**197,486**	**7,788,848**	**15,000**	**Minimum requirement met**
S.D. Whittaker	**April 19, 1996**	**2,744**	**57,795**	**2,279,435**	**15,000**	**Minimum requirement met**
V.L. Young	**April 23, 2002**	**1,696**	**31,614**	**1,246,856**	**15,000**	**Minimum requirement met**

a) Paragraph 10(b) of the board of directors also provides that B.H. March, as chairman, president and chief executive officer shall, within three years of his appointment as chairman and chief executive officer, acquire shares of the company, including common shares, deferred share units and restricted stock units, of a value of no less than five times his base salary. B.H. March has achieved this requirement.

b) The amount shown in the column Total at-risk value of total holdings is equal to the Total holdings multiplied by the closing price of the company s shares on February 12, 2010 ($39.44).

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Item 12. Security ownership of certain beneficial owners and management and related stockholder matters

To the knowledge of the directors and executive officers of the company, the only shareholder who, as of February 12, 2010, owned beneficially, or exercised control or direction over, directly or indirectly, more than 10 percent of the outstanding common shares of the company is Exxon Mobil Corporation, 5959 Las Colinas Boulevard, Irving, Texas 75039-2298, which owns beneficially 589,928,303 common shares, representing 69.6 percent of the outstanding voting shares of the company.

Reference is made to the security ownership information under the preceding Items 10 and 11. As of February 12, 2010, S.M. Smith was the owner of 4,147 common shares of the company and held 159,250 restricted stock units of the company.

The executive officers and the directors of the company, whose compensation for the year-ended December 31, 2009 is described on pages 28 through 50, consist of 15 persons, who, as a group, own beneficially 96,694 common shares of the company, being approximately 0.01 percent of the total number of outstanding shares of the company, and 573,427 shares of Exxon Mobil Corporation (including 350,305 restricted shares). This information not being within the knowledge of the company has been provided by the directors and the executive officers individually. As a group, the directors and executive officers of the company held options to acquire 145,500 common shares of the company and held restricted stock units to acquire 541,500 common shares of the company, as of February 12, 2010.

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 2009 pursuant to compensation plans of the company.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (c)	Weighted-average exercise price of outstanding options, warrants and rights ($) (d)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) (c)
Equity compensation plans approved by security holders (a)	**4,240,830**	**15.50**	
Equity compensation plans not approved by security holders (b)	**7,661,950**		**2,838,050**
Total	**11,902,780**	**15.50**	**2,838,050**

a) This is a stock option plan, which is described starting on page 44.
b) This is a restricted stock unit plan, which is described starting on page 32.
c)

The number of securities reserved for the stock option plan represents three times the number of stock options granted in 2002 before the three-for-one share split in May 2006 and still outstanding. The number of securities reserved for the restricted stock unit plan represents the securities reserved for restricted stock units issued in 2006, 2007, 2008 and 2009 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.

d) The weighted average exercise price of the outstanding stock options of $15.50 was determined on a post share split basis.

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Item 13. Certain relationships and related transactions, and director independence

On June 25, 2008, the company implemented a 12-month normal course share-purchase program under which it purchased 35,723,819 of its outstanding shares between June 25, 2008 and June 24, 2009. On June 25, 2009, a 12-month share purchase program was implemented under which the company may purchase up to 42,380,326 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 2009, such share purchases cost $491.7 million, of which $340.5 million was received by Exxon Mobil Corporation.

The amounts of purchases and sales by the company and its subsidiaries for other transactions in 2009 with Exxon Mobil Corporation and affiliates of Exxon Mobil Corporation were $3,328 million and $1,699 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, natural gas, 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 upstream activities conducted jointly in Canada. In addition, the company has existing 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. The company has a contractual agreement with an affiliate of Exxon Mobil Corporation in Canada to operate the Western Canada production properties owned by ExxonMobil. There are no asset ownership changes. The company and that affiliate also have a contractual agreement to provide for equal participation in new upstream opportunities. During 2007, the company entered into agreements with Exxon Mobil Corporation and one of its affiliated companies that provide for the delivery of management, business and technical services to Syncrude Canada Ltd. by ExxonMobil.

In 2009, the company entered into an agreement with ExxonMobil that provides for a long-term variable-rate loan from ExxonMobil to the company of up to $5 billion (Canadian) at interest equivalent to Canadian market rates. The company has not drawn on this agreement.

R.C Olsen is a non-independent member of the executive resources committee, environmental, health and safety committee and nominations and corporate governance committee and a non-independent director of the board of the Imperial Oil Foundation. As an employee of ExxonMobil Production Company, R.C. Olsen is independent of the company s management and is able to assist these committees by reflecting the perspective of the company s shareholders.

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Item 14. Principal accountant fees and services

Auditor 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, 2009 and December 31, 2008 were as follows:

thousands of dollars	**2009**	2008
Audit fees	**1,140**	1,140
Audit-related fees	**62**	62
Tax fees	**0**	176
All other fees	**0**	0
Total fees	**1,202**	1,378

Audit fees include the audit of the company s annual financial statements and internal control over financial reporting, and a review of the first three quarterly financial statements in 2009. 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. 2008 was the final year of PwC providing tax services for the company s employees on foreign loan assignment. The company did not engage the auditor for any other services.

The audit committee recommends the external auditor to be appointed by the shareholders, fixes its remuneration and oversees its work. The audit committee also approves the proposed current year audit program of the external auditor, assesses the results of the program after the end of the program period and approves in advance any non-audit services to be performed by the external auditor after considering the effect of such services on their independence.

All of the services rendered by the auditor to the company were approved by the audit committee.

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PART IV

Item 15. Exhibits and financial statement schedules

Reference is made to the table of content in the Financial section on page 59 of this report.

The following exhibits numbered in accordance with Item 601 of Regulation S-K are filed as part of this report:

(3) (i) Restated certificate and articles of incorporation of the company (Incorporated herein by reference to Exhibit (3.1) to the company s Form 8-Q filed on May 3, 2006 (File No. 0-12014)).

(ii) By-laws of the company (Incorporated herein by reference to Exhibit (3)(ii) to the company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 0-12014)).

(4) The company s long-term debt authorized under any instrument does not exceed 10 percent of the company s consolidated assets. The company agrees to furnish to the Commission upon request a copy of any such instrument.

(10) (ii) (1) Alberta Crown Agreement, dated February 4, 1975, relating to the participation of the Province of Alberta in Syncrude (Incorporated herein by reference to Exhibit 13(a) of the company s Registration Statement on Form S-1, as filed with the Securities and Exchange Commission on August 21, 1979 (File No. 2-65290)).

(2) Amendment to Alberta Crown Agreement, dated January 1, 1983 (Incorporated herein by reference to Exhibit (10)(ii)(2) of the company s Annual Report on Form 10-K for the year ended December 31, 1983 (File No. 2-9259)).

(3) Syncrude Ownership and Management Agreement, dated February 4, 1975 (Incorporated herein by reference to Exhibit 13(b) of the company s Registration Statement on Form S-1, as filed with the Securities and Exchange Commission on August 21, 1979 (File No. 2-65290)).

(4) Letter Agreement, dated February 8, 1982, between the Government of Canada and Esso Resources Canada Limited, amending Schedule C to the Syncrude Ownership and Management Agreement filed as Exhibit (10)(ii)(2) (Incorporated herein by reference to Exhibit (20) of the company s Annual Report on Form 10-K for the year ended December 31, 1981 (File No. 2-9259)).

(5) Norman Wells Pipeline Agreement, dated January 1, 1980, relating to the operation, tolls and financing of the pipeline system from the Norman Wells field (Incorporated herein by reference to Exhibit 10(a)(3) of the company s Annual Report on Form 10-K for the year ended December 31, 1981 (File No. 2-9259)).

(6) Norman Wells Pipeline Amending Agreement, dated April 1, 1982 (Incorporated herein by reference to Exhibit (10)(ii)(5) of the company s Annual Report on Form 10-K for the year ended December 31, 1982 (File No. 2-9259)).

(7) Letter Agreement clarifying certain provisions to the Norman Wells Pipeline Agreement, dated August 29, 1983 (Incorporated herein by reference to Exhibit (10)(ii)(7) of the company s Annual Report on Form 10-K for the year ended December 31, 1983 (File No. 2-9259)).

(8) Norman Wells Pipeline Amending Agreement, made as of February 1, 1985, relating to certain amendments ordered by the National Energy Board (Incorporated herein by reference to Exhibit (10)(ii)(8) of the company s Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 0-12014)).

(9) Norman Wells Pipeline Amending Agreement, made as of April 1, 1985, relating to the definition of Operating Year (Incorporated herein by reference to Exhibit (10)(ii)(9) of the company s Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 0-12014)).

(10) Norman Wells Expansion Agreement, dated October 6, 1983, relating to the prices and royalties payable for crude oil production at Norman Wells (Incorporated herein by reference to Exhibit (10)(ii)(8) of the company s Annual Report on Form 10-K for the year ended December 31, 1983 (File No. 2-9259)).

(11) Alberta Cold Lake Crown Agreement, dated June 25, 1984, relating to the royalties payable and the assurances given in respect of the Cold Lake production project (Incorporated herein by reference to Exhibit (10)(ii)(11) of the company s Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 0-12014)).

(12) Amendment to Alberta Crown Agreement, dated January 1, 1986 (Incorporated herein by reference to Exhibit (10)(ii)(12) of the company s Annual Report on Form 10-K for the year ended

December 31, 1987 (File No. 0-12014)).

(13) Amendment to Alberta Crown Agreement, dated November 25, 1987 (Incorporated herein by reference to Exhibit (10)(ii)(13) of the company s Annual Report on Form 10-K for the year ended December 31, 1987 (File No. 0-12014)).

(14) Amendment to Syncrude Ownership and Management Agreement, dated March 10, 1982 (Incorporated herein by reference to Exhibit (10)(ii)(14) of the company s Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 0-12014)).

(15) Amendment to Alberta Crown Agreement, dated August 1, 1991 (Incorporated herein by reference to Exhibit (10)(ii)(15) of the company s Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 0-12014)).

(16) Norman Wells Settlement Agreement, dated July 31, 1996. (Incorporated herein by reference to Exhibit (10)(ii)(16) of the company s Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 0-12014)).

(17) Amendment to Alberta Crown Agreement, dated January 1, 1997. (Incorporated herein by reference to Exhibit (10)(ii)(17) of the company s Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 0-12014)).

(18) Norman Wells Pipeline Amending Agreement, dated December 12, 1997. (Incorporated herein by reference to Exhibit (10)(ii)(18) of the company s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-12014)).

(19) Norman Wells Pipeline 1999 Amending Agreement, dated May 1, 1999. (Incorporated herein by reference to Exhibit (10)(ii)(19) of the company s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-12014)).

(20) Alberta Cold Lake Transition Agreement, effective January 1, 2000, relating to the royalties payable in respect of the Cold Lake production project and terminating the Alberta Cold Lake Crown Agreement. (Incorporated herein by reference to Exhibit (10)(ii)(20) of the company s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 0-12014)).

(21) Amendment to Alberta Crown Agreement effective January 1, 2001 (Incorporated herein by reference to Exhibit (10)(ii)(21) of the company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).

(22) Amendment to Syncrude Ownership and Management Agreement effective January 1, 2001 (Incorporated herein by reference to Exhibit (10)(ii)(22) of the company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).

(23) Amendment to Syncrude Ownership and Management Agreement effective September 16, 1994 (Incorporated herein by reference to Exhibit (10)(ii)(23) of the company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).

(24) Amendment to Alberta Crown Agreement dated November 29, 1995 (Incorporated herein by reference to Exhibit (10)(ii)(24) of the company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).

(25) Syncrude Royalty Amending Agreement, dated November 18, 2008, setting out various items, including the amount of additional royalties that are to be paid to the Province of Alberta in the period from January 1, 2010 to December 31, 2015 in return for certain assurances from the Government of Alberta (Incorporated herein by reference to Exhibit 1.01(10)(ii)(1) of the company s Form 8-K filed on November 19, 2008 (File No. 0-12014)).

(26) Syncrude Bitumen Royalty Option Agreement, dated November 18, 2008, setting out the terms of the exercise by the Syncrude Joint Venture owners of the option contained in the existing Crown Agreement to convert to a royalty payable on the value of bitumen, effective January 1, 2009 (Incorporated herein by reference to Exhibit 1.01(10)(ii)(2) of the company s Form 8-K filed on November 19, 2008 (File No. 0-12014)).

(27) Project Approval Order No. OSR045 made under the Alberta Mines and Minerals Act and Oil Sands Royalty Regulation, 1997 in respect of the Syncrude Project (Incorporated herein by reference to Exhibit 1.01(10)(ii)(3) of the company s Form 8-K filed on November 19, 2008 (File No. 0-12014)).

(iii)(A) (1) Form of Letter relating to Supplemental Retirement Income (Incorporated herein by reference to Exhibit (10)(c)(3) of the company s Annual Report on Form 10-K for the year ended December 31, 1980 (File No. 2-9259)).

(2) Incentive Share Unit Plan and Incentive Share Units granted in 2001 are incorporated herein by reference to Exhibit (10)(iii)(A)(2) of the company s Annual Report on Form 10-K for

the year - ended December 31, 2001. Units granted in 2000 are incorporated herein by reference to Exhibit (10)(iii)(A)(2) of the company s Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 0-12014); units granted in 1999 are incorporated herein by reference to Exhibit (10)(iii)(A)(3) of the company s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-12014); units granted in 1998 are incorporated herein by reference to Exhibit (10)(iii)(A)(3) of the company s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-12014).

(3) Deferred Share Unit Plan. (Incorporated herein by reference to Exhibit(10)(iii)(A)(5) of the company s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-12014)).

(4) Deferred Share Unit Plan for Nonemployee Directors. (Incorporated herein by reference to Exhibit (10)(iii)(A)(6) of the company s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-12014)).

(5) Form of Earnings Bonus Units (Incorporated herein by reference to Exhibit (10)(iii)(A)(5) of the company s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 0-12014)) and Earnings Bonus Unit Plan (Incorporated herein by reference to Exhibit (10)(iii)(A)(5) of the company s Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 0-12014)).

(6) Incentive Stock Option Plan and Incentive Stock Options granted in 2002 (Incorporated herein by reference to Exhibit (10)(iii)(A)(6) of the company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 0-12014)).

(7) Restricted Stock Unit Plan and Restricted Stock Units granted in 2002 (Incorporated herein by reference to Exhibit (10)(iii)(A)(7) of the company s Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 0-12014)).

(8) Restricted Stock Unit Plan and Restricted Stock Units granted in 2003 (Incorporated herein by reference to Exhibit (10)(iii)(A)(8) of the company s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 0-12014)).

(9) Restricted Stock Unit Plan and general form for Restricted Stock Units, as amended effective December 31, 2004 (Incorporated herein by reference to Exhibit 99.1 of the company s Form 8-K dated December 31, 2004 (File No. 0-12014)).

(10) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2002, as amended effective August 4, 2006 (Incorporated herein by reference to Exhibit 99.10(III)(A)(1) of the company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-12014)).

(11) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2003, as amended effective August 4, 2006 (Incorporated herein by reference to Exhibit 99.10(III)(A)(2) of the company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-12014)).

(12) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2004 and 2005, as amended effective August 4, 2006 (Incorporated herein by reference to Exhibit 99.10(III)(A)(3) of the company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-12014)).

(13) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2006 and subsequent years, as amended effective August 4, 2006 (Incorporated herein by reference to Exhibit 99.10(III)(A)(4) of the company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-12014)).

(14) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2002, as amended effective February 1, 2007 (Incorporated herein by reference to Exhibit 99.1 of the company s Form 8-K filed on February 2, 2007 (File No. 0-12014)).

(15) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2002, as amended effective February 26, 2008 and May 1, 2008 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(15)] of the company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).

(16) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2003, as amended effective February 26, 2008 and May 1, 2008 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(16)] of the company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).

(17) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2004 and 2005, as amended effective February 26, 2008 and May 1, 2008 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(17)] of the company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).

(18) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2006 and 2007, as amended effective February 26, 2008 and May 1, 2008 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(18)] of the company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).

(19) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2008 and subsequent years, as amended effective February 26, 2008 and May 1, 2008 (Incorporated herein by reference to Exhibit 6 [10(iii)(A)(19)] of the company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 0-12014)).

(20) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2002, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(1)] of the company s Form 8-K filed on November 25, 2008 (File No. 0-12014)).

(21) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2003, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(2)] of the company s Form 8-K filed on November 25, 2008 (File No. 0-12014)).

(22) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2004 and 2005, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(3)] of the company s Form 8-K filed on November 25, 2008 (File No. 0-12014)).

(23) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2006 and 2007, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(4)] of the company s Form 8-K filed on November 25, 2008 (File No. 0-12014)).

(24) Amended Restricted Stock Unit Plan with respect to Restricted Stock Units granted in 2008 and subsequent years, as amended effective November 20, 2008 (Incorporated herein by reference to Exhibit 9.01(c)[10(iii)(A)(5)] of the company s Form 8-K filed on November 25, 2008 (File No. 0-12014)).

(25) Amended Deferred Share Unit Plan for selected executives effective November 20, 2008 (Incorporated herein by reference to Exhibit 15(10)(iii)(A)(25) of the company s Form 10-K filed on February 27,2009). (File No. 0-12014))

(26) Termination of Deferred Share Unit Plan for selected executives effective February 2, 2010 (Reference is made to the company s Form 8-K filed on February 3, 2010 (File No. 0-12014))

(21) Imperial Oil Resources Limited, McColl-Frontenac Petroleum Inc., Imperial Oil Resources N.W.T. Limited and Imperial Oil Resources Ventures Limited, all incorporated in Canada, are wholly-owned subsidiaries of the company. The names of all other subsidiaries of the company are omitted because, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary as of December 31, 2009.

(23) (ii) (A) Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).

(31.1) Certification by principal executive officer of Periodic Financial Report pursuant to Rule 13a-14(a).

(31.2) Certification by principal financial officer of Periodic Financial Report pursuant to Rule 13a-14(a).

(32.1) Certification by chief executive officer of Periodic Financial Report pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

(32.2) Certification by chief financial officer of Periodic Financial Report pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

Copies of Exhibits may be acquired upon written request of any shareholder to the investor relations manager, Imperial Oil Limited, 237 Fourth Avenue S.W., Calgary, Alberta, Canada T2P 3M9, and payment of processing and mailing costs.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf on February 26, 2010 by the undersigned, thereunto duly authorized.

Imperial Oil Limited

By /s/ Bruce H. March
(Bruce H. March, Chairman of the Board,

President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 26, 2010 by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title
/s/ Bruce H. March (Bruce H. March)	Chairman of the Board, President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Paul A. Smith (Paul A. Smith)	Senior Vice-President, Finance and Administration, and Treasurer and Director (Principal Accounting Officer and Principal Financial Officer)
/s/ Krystyna T. Hoeg (Krystyna T. Hoeg)	Director
/s/ Jack M. Mintz (Jack M. Mintz)	Director
/s/ Robert C. Olsen (Robert C. Olsen)	Director
/s/ Roger Phillips (Roger Phillips)	Director
/s/ Sheelagh D. Whittaker (Sheelagh D. Whittaker)	Director
/s/ Victor L. Young (Victor L. Young)	Director

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Financial section

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Financial summary (U.S. GAAP)

millions of dollars	**2009**	2008	2007	2006	2005
Operating revenues (a)	**21,292**	31,240	25,069	24,505	27,797
Net income by segment:					
Upstream	**1,324**	2,923	2,369	2,376	2,008
Downstream	**278**	796	921	624	694
Chemical	**46**	100	97	143	121
Corporate and other	**(69)**	59	(199)	(99)	(223)
Net income	**1,579**	3,878	3,188	3,044	2,600
Cash and cash equivalents at year-end	**513**	1,974	1,208	2,158	1,661
Total assets at year-end	**17,473**	17,035	16,287	16,141	15,582
Long-term debt at year-end	**31**	34	38	359	863
Total debt at year-end	**140**	143	146	1,437	1,439
Other long-term obligations at year-end	**2,839**	2,254	1,914	1,683	1,728
Shareholders equity at year-end	**9,439**	9,065	7,923	7,406	6,633
Cash flow from operating activities	**1,591**	4,263	3,626	3,587	3,451
Per-share information (dollars) (b)					
Net income per share basic	**1.86**	4.39	3.43	3.12	2.54
Net income per share diluted	**1.84**	4.36	3.41	3.11	2.53
Dividends	**0.40**	0.38	0.35	0.32	0.31

a) Operating revenues include $4,894 million for 2005 for purchases/sales contracts with the same counterparty. Associated costs were included in purchases of crude oil and products . Effective January 1, 2006, these purchases/sales were recorded on a net basis.

b) Adjusted to reflect the May 2006 three-for-one share split.

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Frequently used terms

Listed below are definitions of three of Imperial s frequently used financial performance measures. The definitions are provided to facilitate understanding of the terms and how they are calculated.

Capital employed

Capital employed is a measure of net investment. When viewed from the perspective of how capital is used by the business, it includes the company s property, plant and equipment and other assets, less liabilities, excluding both short-term and long-term debt. When viewed from the perspective of the sources of capital employed for the whole company, it includes total debt and equity. Both of these views include the company s share of amounts applicable to equity companies.

millions of dollars	**2009**	2008	2007
Business uses: asset and liability perspective			
Total assets	**17,473**	17,035	16,287
Less: total current liabilities excluding short-term debt and current portion of long-term debt	**(3,659)**	(4,084)	(4,833)
Less: total long-term liabilities excluding long-term debt	**(4,235)**	(3,743)	(3,385)
Add: Imperial s share of equity company debt	**36**	40	50
Total capital employed	**9,615**	9,248	8,119

millions of dollars	**2009**	2008	2007
Total company sources: debt and equity perspective			
Short-term debt and current portion of long-term debt	**109**	109	108
Long-term debt	**31**	34	38
Shareholders equity	**9,439**	9,065	7,923
Add: Imperial s share of equity company debt	**36**	40	50
Total capital employed	**9,615**	9,248	8,119

Return on average capital employed (ROCE)

ROCE is a financial performance ratio. For each of the company s business segments, ROCE is annual business-segment net income divided by average business-segment capital employed (an average of the beginning-and end-of-year amounts). Segment net income includes Imperial s share of segment net income of equity companies, consistent with the definition used for capital employed, and excludes the cost of financing. The company s total ROCE is net income excluding the after-tax cost of financing divided by total average capital employed. The company has consistently applied its ROCE definition for many years and views it as the best measure of historical capital productivity in a capital-intensive, long-term industry to both evaluate management s performance and demonstrate to shareholders that capital has been used wisely over the long-term. Additional measures, which tend to be more cash flow based, are used to make investment decisions.

millions of dollars	**2009**	2008	2007
Net income	**1,579**	3,878	3,188
Financing costs (after tax), including Imperial s share of equity companies	**2**	2	18
Net income excluding financing costs	**1,581**	3,880	3,206
Average capital employed	**9,432**	8,684	8,509
Return on average capital employed (percent) corporate total	**16.8**	44.7	37.7

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Cash flow from operating activities and asset sales

Cash flow from operating activities and asset sales is the sum of the net cash provided by operating activities and proceeds from asset sales reported in the consolidated statement of cash flows. This cash flow is the total source of cash both from operating the company s assets and from the divesting of assets. The company employs a long-standing, disciplined regular review process to ensure that all assets are contributing to the company s strategic and financial objectives. Assets are divested when they no longer meet these objectives or are worth considerably more to others. Because of the regular nature of this activity, management believes it is useful for investors to consider sales proceeds together with cash provided by operating activities when evaluating cash available for investment in the business and financing activities, including shareholder distributions.

millions of dollars	**2009**	2008	2007
Cash from operating activities	**1,591**	4,263	3,626
Proceeds from asset sales	**67**	272	279
Total cash flow from operating activities and asset sales	**1,658**	4,535	3,905

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Management s discussion and analysis of financial condition and results of operations

Overview

The following discussion and analysis of Imperial s financial results, as well as the accompanying financial statements and related notes to consolidated financial statements to which they refer, are the responsibility of the management of Imperial Oil Limited.

The company s accounting and financial reporting fairly reflect its straightforward business model involving the extracting, refining and marketing of hydrocarbons and hydrocarbon-based products. The company s business involves the production (or purchase), manufacture and sale of physical products, and all commercial activities are directly in support of the underlying physical movement of goods.

Imperial, with its resource base, financial strength, disciplined investment approach and technology portfolio, is well-positioned to participate in substantial investments to develop new Canadian energy supplies. While commodity prices remain volatile on a short-term basis depending upon supply and demand, Imperial s investment decisions are based on its long-term business outlook, using a disciplined approach in selecting and pursuing the most attractive investment opportunities. The corporate plan is a fundamental annual management process that is the basis for setting near-term operating and capital objectives, in addition to providing the longer-term economic assumptions used for investment evaluation purposes. Potential investment opportunities are tested over a wide range of economic scenarios to establish the resiliency of each opportunity. Once investments are made, a reappraisal process is completed to ensure relevant lessons are learned and improvements are incorporated into future projects.

Business environment and risk assessment

Long-term business outlook

Economic and population growth are expected to remain the primary drivers of energy demand, globally and in North America. The company expects the global economy to grow at an average rate of close to three percent per year through 2030. The combination of population and economic growth should lead to an increase in demand for primary energy at an average rate of 1.2 percent annually. The vast majority of this increase is expected to occur in developing countries.

Oil, gas and coal are expected to remain the predominant energy sources with approximately an 80 percent share of total energy. Oil and gas alone are expected to maintain close to a 60 percent share.

Over the same period, the Canadian economy is expected to grow at an average rate of about 2.4 percent per year, and Canadian demand for energy at about 0.8 percent per year. Oil and gas are expected to continue to supply about two-thirds of Canadian energy demand. It is expected that Canada will also be a growing supplier of energy to U.S. markets through this period.

Oil products are the transportation fuel of choice for the world s fleet of cars, trucks, trains, ships and airplanes. Primarily because of increased demand in developing countries, oil consumption is expected to increase by about 25 percent or over 20 million barrels a day by 2030. Canada s oil resources, second only to Saudi Arabia, represent an important potential additional source of supply.

Natural gas is expected to be a major primary energy source globally, capturing about 35 percent of all incremental energy growth and approaching one-quarter of global energy supplies. Natural gas production from conventional sources in mature established regions in the United States and Canada is not expected to meet increasing demand, strengthening the market opportunities for new gas supply from Canada s frontier areas and unconventional resources.

Management s discussion and analysis of financial condition and results of operations (continued)

Upstream

Imperial produces crude oil and natural gas for sale into large North American markets. Crude oil and natural gas prices are determined by global and North American markets and are subject to changing supply and demand conditions. These can be influenced by a wide range of factors, including economic conditions, international political developments and weather.

The global economic recession in 2009 challenged the oil and gas industry globally and in Canada. Imperial responded to the uncertainty associated with the economic downturn by following the company s proven approach of focusing on those elements of the business within its control and taking a long-term view of development. The focus on prudent financial management and disciplined capital investment enabled the company to progress several key growth projects in a challenging business environment, while capitalizing on lower costs and higher productivity.

Imperial s fundamental Upstream business strategies guide the company s exploration, development, production and gas marketing activities. These strategies include identifying and pursuing all attractive exploration opportunities, investing in projects that deliver superior returns and maximizing profitability of existing oil and gas production. These strategies are underpinned by a relentless focus on operational excellence, commitment to innovative technologies, development of employees and investment in the communities in which the company operates.

Imperial has a large portfolio of oil and gas resources in Canada, both developed and undeveloped, which helps reduce the risks of dependence on potentially limited supply sources in the Upstream. With the relative maturity of conventional production in the established producing areas of Western Canada, Imperial s production is expected to come increasingly from unconventional and frontier sources, particularly oil sands, unconventional natural gas and from Canada s North, where Imperial has large undeveloped resource opportunities.

Downstream

The downstream industry environment remains very competitive. Refining margins are the difference between what a refinery pays for its raw materials (primarily crude oil) and the wholesale market prices for the range of products produced (primarily gasoline, diesel fuel, heating oil, jet fuel and heavy fuel oil). Refining margins have been flat, over the past 20 years in inflation adjusted terms, with the recent prior years stronger margins offsetting the longer-term trend of declining margins. Intense competition in the retail fuels market has tended to drive down real margins over time. Crude oil and many products are widely traded with published international prices. Prices for those commodities are determined by the marketplace, often an international marketplace, and are affected by many factors, including global and regional supply/demand balances, inventory levels, refinery operations, import/export balances, transportation logistics, seasonality and weather. Canadian wholesale prices in particular are largely determined by wholesale prices in adjacent U.S. regions. These prices and factors are continually monitored and provide input to operating decisions about which raw materials to buy, facilities to operate and products to make. In 2009, the global economic recession had a significant negative impact on the demand for refined products, and thus put considerable downward pressure on worldwide and North American refining margins. However, there are no reliable indicators of future market factors that accurately predict changes in margins from period to period.

The company will continue to focus on the business elements within its control. Imperial s Downstream strategies are to provide customers with quality service and products at the lowest total cost offer, have the lowest unit costs among industry competitors, ensure efficient and effective use of capital and capitalize on integration with the company s other businesses.

Imperial owns and operates four refineries in Canada, with distillation capacity of 502,000 barrels a day and lubricant manufacturing capacity of 8,000 barrels a day. Imperial s fuels marketing business includes retail operations across Canada serving customers through about 1,850 Esso-branded retail service stations, of which about 540 are company-owned or leased, and wholesale and industrial operations through a network of 24 primary distribution terminals, as well as a secondary distribution network.

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Management s discussion and analysis of financial condition and results of operations (continued)

Chemical

The North American petrochemical industry was weak in 2009 as a result of the slow global economy. The company s strategy for its Chemical business is to reduce costs and maximize value by continuing to increase the integration of its chemical plants at Sarnia and Dartmouth with the refineries. The company also benefits from its integration within ExxonMobil s North American chemical businesses, enabling Imperial to maintain a leadership position in its key market segments.

Results of operations

Consolidated

millions of dollars	**2009**	2008	2007
Net income	**1,579**	3,878	3,188

2009

Net income in 2009 was $1,579 million or $1.84 a share on a diluted basis, a decrease of $2,299 million or $2.52 a share from 2008. Earnings decreased primarily due to the unfavourable impact of lower crude oil and natural gas commodity prices, which were a result of the global economic downturn. Also impacting 2009 earnings were lower overall downstream margins and product demand. These factors were partially offset by lower royalty costs and the impact of a lower Canadian dollar. Earnings in the full year of 2008 included a gain of $187 million from the sale of Rainbow Pipe Line Co. Ltd.

2008

Net income in 2008 of $3,878 million or $4.36 a share on a diluted basis was the best on record, exceeding the previous record achieved in 2007 of $3,188 million or $3.41 a share. Earnings increased primarily due to the favourable impact of higher crude oil and natural gas commodity prices. Improved upstream realizations were partially offset by the negative impacts of lower upstream volumes, higher royalties, higher energy and maintenance costs and lower overall downstream margins.

Upstream

millions of dollars	**2009**	2008	2007
Net income	**1,324**	2,923	2,369

2009

Net income for the year was $1,324 million, down $1,599 million from 2008. Lower crude oil and natural gas commodity prices in 2009 reduced revenues, impacting earnings by about $2,400 million as a result of the global economic downturn. Earnings were also negatively impacted by lower Cold Lake bitumen production of about $100 million and lower conventional volumes from expected reservoir decline of about $60 million. These factors were partially offset by lower royalty costs due to lower commodity prices of about $600 million and the impact of a lower Canadian dollar of about $325 million.

2008

Net income was $2,923 million versus $2,369 million in 2007. Earnings benefited from higher overall crude oil and natural gas commodity prices totaling about $2,100 million. Their positive impact on earnings was partially offset by lower conventional volumes from expected reservoir decline of about $420 million, lower Syncrude volumes of about $135 million and lower cyclical Cold Lake bitumen production of about $105 million. Earnings were also negatively impacted by higher royalties of about $310 million, higher energy, Syncrude maintenance, and other production costs totaling about $290 million, the absence of favourable effects of tax rate changes of about $170 million and lower gains from asset divestments of about $140 million.

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Management s discussion and analysis of financial condition and results of operations (continued)

Average realizations and prices

Canadian dollars	**2009**	2008	2007
Conventional crude oil realizations (a barrel)	**60.32**	95.76	71.70
Natural gas liquids realizations (a barrel)	**41.19**	59.35	47.92
Natural gas realizations (a thousand cubic feet)	**4.11**	8.69	6.95
Syncrude realizations (a barrel)	**69.69**	106.61	79.10
Western Canada Select heavy oil (a barrel)	**58.67**	82.96	52.91

2009

The average price of Brent crude oil in U.S. dollars, a common benchmark for world oil markets, at $61.61 a barrel, declined about 36 percent from 2008. The company s realizations on sales of Canadian conventional crude oil and synthetic crude oil from Syncrude production mirrored the same trend as world prices.

Prices for Canadian heavier crude oil also declined along with the lighter crude oil. The company s average realizations for Cold Lake bitumen fell about 25 percent for the full year in 2009, compared to 2008, reflecting the narrowing price spread between light crude oil and Cold Lake bitumen.

Canadian natural gas prices in 2009 were lower than in the previous year. The average of 30-day spot prices for natural gas in Alberta decreased to $4.39 a thousand cubic feet, a decline of about 49 percent from 2008. The company s realizations for natural gas averaged $4.11 a thousand cubic feet, down about 53 percent from 2008.

2008

World crude oil prices ended 2008 much lower than the record levels reached earlier in the year. The price of Brent crude oil, a common benchmark of world oil markets, declined from a high of $144.22 (U.S.) a barrel in July to a low of $33.65 (U.S.) in December. For the year, the average price of Brent crude oil was $96.99 (U.S.) a barrel, up about 34 percent from 2007. The company s realizations on sales of Canadian conventional crude oil mirrored the same trends as world prices, ending 2008 at a level much lower than the average of the year.

Prices for Canadian heavy oil, including the company s bitumen at Cold Lake, moved generally in line with that of the lighter crude oil. The price of Western Canada Select, a benchmark for heavy oil, increased by about 57 percent in 2008 from 2007 and fell much below the year s average by the end of the year.

Prices for Canadian natural gas in 2008 were higher than in the previous year. The average of 30-day spot prices for natural gas in Alberta was about $8.61 a thousand cubic feet in 2008, compared with $7.01 in 2007. The company s average realizations on natural gas sales were $8.69 a thousand cubic feet, compared with $6.95 in 2007.

Crude oil and NGLs - production and sales (a)

thousands of barrels a day	**2009**		2008		2007	
	gross	**net**	gross	net	gross	net
Cold Lake	**141**	**120**	147	124	154	130
Syncrude	**70**	**65**	72	62	76	65
Conventional crude oil	**25**	**20**	27	19	29	21
Total crude oil production	**236**	**205**	246	205	259	216
NGLs available for sale	**8**	**6**	10	8	16	12

Total crude oil and NGL production	**244**	**211**	256	213	275	228
Cold Lake sales, including diluent (b)	**184**		191		200	
NGL sales	**10**		11		20	

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Management s discussion and analysis of financial condition and results of operations (continued)

Natural gas - production and sales (a)

millions of cubic feet a day	**2009**		2008		2007	
	gross	**net**	gross	net	gross	net
Production (c)	**295**	**274**	310	249	458	404
Sales	**272**		288		407	

a) Daily volumes are calculated by dividing total volumes for the year by the number of days in the year. Gross production is the company s share of production (excluding purchases) before deducting the share of mineral owners or governments or both. Net production excludes those shares.

b) Diluent is natural gas condensate or other light hydrocarbons added to Cold Lake bitumen to facilitate transportation to market by pipeline.

c) Production of natural gas includes amounts used for internal consumption with the exception of the amounts reinjected.

2009

Gross production of bitumen at the company s wholly owned facilities at Cold Lake was 141,000 barrels a day this year, about 6,000 barrels a day lower than 2008. Lower production volumes in 2009 were due to the cyclic nature of production at Cold Lake and well repairs in the northern part of the field. Drilling and steaming activities have since resumed in this area, and production is expected to return to normal levels.

The company s share of Syncrude s gross production of synthetic crude oil was 70,000 barrels a day, a decrease of 2,000 barrels a day from 2008. Planned maintenance activities in the first half of 2009, which included design modifications to improve long-term operational performance, contributed to the reduced production in the year.

Gross production of conventional crude oil decreased to 25,000 barrels a day in 2009, down 2,000 barrels a day from 2008 as a result of natural decline in Western Canadian reservoirs.

Gross production of natural gas was 295 million cubic feet a day, down from 310 million cubic feet in 2008. The lower production volume was primarily a result of natural reservoir decline.

2008

Gross production of bitumen at the company s wholly owned facilities at Cold Lake was 147,000 barrels a day, compared with 154,000 barrels in 2007. Lower production was due to the cyclic nature of production at Cold Lake.

The company s share of Syncrude s gross production of synthetic crude oil was 72,000 barrels a day versus 76,000 barrels in 2007. Lower volumes were primarily the result of planned and unplanned maintenance activities during the year, including work to improve reliability performance.

Gross production of conventional oil decreased to 27,000 barrels a day from 29,000 barrels in 2007 as a result of natural decline in Western Canadian reservoirs.

Gross production of natural gas decreased to 310 million cubic feet a day from 458 million in 2007. The most significant reason for the lower production volumes was the completion of production, as expected, from the Wizard Lake gas cap blowdown.

Gross production of NGLs available for sale averaged 10,000 barrels a day in 2008, down from 16,000 barrels in 2007, mainly due to the completion of production from Wizard Lake.

Downstream

millions of dollars	**2009**	2008	2007
Net income	**278**	796	921

2009

Net income was $278 million in 2009, $518 million lower than 2008. Earnings in 2008 included a gain of $187 million from the sale of Rainbow Pipe Line Co. Ltd. Also impacting earnings in 2009 were lower overall margins of about $270 million and lower sales volumes of about $70 million due to the slowdown in the economy. These factors were partially offset by the favourable impact of a weaker Canadian dollar of about $40 million.

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Management s discussion and analysis of financial condition and results of operations (continued)

2008

Net income was $796 million, compared with $921 million in 2007. Earnings decreased primarily due to lower overall downstream margins and unfavourable inventory effects totaling about $230 million. Earnings were also lower due to higher planned maintenance costs of about $40 million and lower sales volumes of about $40 million. These factors were partially offset by a gain of $187 million from the sale of the company s equity investment in Rainbow Pipe Line Co. Ltd. Industry refining margins were lower in 2008, compared with those in 2007, reflecting weakening demand and higher inventory levels. Marketing margins in 2008 were higher than those in 2007.

Refinery utilization

thousands of barrels a day (a)	**2009**	2008	2007
Total refinery throughput (b)	**413**	446	442
Refinery capacity at December 31	**502**	502	502
Utilization of total refinery capacity (percent)	**82**	89	88

Sales

thousands of barrels a day (a)	**2009**	2008	2007
Gasolines	**200**	204	208
Heating, diesel and jet fuels	**143**	157	164
Heavy fuel oils	**27**	30	33
Lube oils and other products	**39**	47	43
Net petroleum product sales	**409**	438	448
Total domestic sales of petroleum products (percent)	**90.3**	93.0	94.8

a) Volumes a day are calculated by dividing total volumes for the year by the number of days in the year.
b) Crude oil and feedstocks sent directly to atmospheric distillation units.

2009

Total refinery throughput was 413,000 barrels a day, down from 2008, and average refinery capacity utilization was 82 percent. Production gains from operating and reliability improvements through the year were offset by the impact of declining economic conditions that did not support running the refineries to full capacity, and also resulted in lower net petroleum product sales of 409,000 barrels a day.

2008

Refinery throughput was 89 percent of capacity in 2008, one percent higher than the previous year. Reliability improvements through the year were partially offset by the impact of declining economic conditions that did not support running the refineries to full capacity. Lower net petroleum product sales were due mainly to lower industry demand.

Chemical

millions of dollars	**2009**	2008	2007
Net income	**46**	100	97

Sales

thousands of tonnes a day (a)	**2009**	2008	2007
Polymers and basic chemicals	**2.1**	2.1	2.2
Intermediate and others	**0.7**	0.7	0.9

Total petrochemical sales	**2.8**	2.8	3.1

a) Calculated by dividing total volumes for the year by the number of days in the year.

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Management s discussion and analysis of financial condition and results of operations (continued)

2009

Net income was $46 million, $54 million lower than 2008. Earnings were negatively impacted by lower overall margins as a result of the slow economy. Sales volumes of chemical products continued to be impacted by weak industry demand.

2008

Net income was $100 million, compared with $97 million in 2007. Higher margins for polyethylene products were essentially offset by lower margins for intermediate products and lower sales volumes for both polyethylene and intermediate products.

Corporate and other

millions of dollars	**2009**	2008	2007
Net income	**(69)**	59	(199)

2009

Net income effects were negative $69 million, versus $59 million in 2008. Unfavourable effects in 2009 were primarily due to changes in share-based compensation charges and lower interest income from lower yields on cash balances.

2008

Net income effects were $59 million, versus negative $199 million last year. Favourable effects were primarily due to lower share-based compensation charges and the absence of unfavourable effects of tax rate changes reported in 2007.

Liquidity and capital resources

Sources and uses of cash

millions of dollars	**2009**	2008	2007
Cash provided by / (used in)			
Operating activities	**1,591**	4,263	3,626
Investing activities	**(2,216)**	(961)	(620)
Financing activities	**(836)**	(2,536)	(3,956)
Increase/(decrease) in cash and cash equivalents	**(1,461)**	766	(950)
Cash and cash equivalents at end of year	**513**	1,974	1,208

Although the company issues long-term debt from time to time and maintains a revolving commercial paper program, internally generated funds normally cover the majority of its financial requirements. The management of cash that may be temporarily available as surplus to the company s immediate needs is carefully controlled to ensure that it is secure and readily available to meet the company s cash requirements and to optimize returns on cash balances.

Cash flows from operating activities are highly dependent on crude oil and natural gas prices and product margins. In addition, to support cash flows in future periods, the company will need to continually find and develop new resources, and continue to develop and apply new technologies to existing fields, in order to maintain or increase production. Projects are in place or underway to increase production capacity. However, these volume increases are subject to a variety of risks, including project execution, operational outages, reservoir performance and regulatory changes.

The company s financial strength enables it to make large, long-term capital expenditures. Imperial s portfolio of development opportunities and the complementary nature of its business segments help mitigate the overall risks of the company and associated cash flow. Further, due to its financial strength, debt capacity and portfolio of opportunities, the risk associated with failure or delay of any single project would not have a significant impact on the company s liquidity or ability to generate sufficient cash flows for its operations and fixed commitments.

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Management s discussion and analysis of financial condition and results of operations (continued)

The company s registered pension plan is subject to an independent actuarial valuation that is required at least once every three years. The next such valuation will be completed in 2010 and could require that Imperial increase its contributions to the plan over the next five years. The company expects that it will meet these funding requirements without affecting current or future investment plans.

Cash flow from operating activities

2009

Cash provided by operating activities was $1,591 million, a decrease of $2,672 million from 2008. Lower cash flow was primarily due to lower net income and timing of scheduled income tax payments.

2008

Cash provided by operating activities was $4,263 million, versus $3,626 million in 2007. Higher cash flow in 2008 was primarily due to higher net income.

Cash flow from investing activities

2009

Investing activities used net cash of $2,216 million in 2009, an increase of $1,255 million from 2008. Additions to property, plant and equipment were $2,285 million, compared with $1,231 million last year. Proceeds from asset sales were $67 million in 2009, compared with $272 million in 2008. The 2008 results included proceeds from the sale of the Rainbow pipeline.

2008

Cash used in investing activities totaled $961 million in 2008, compared with $620 million in 2007. Higher spending on property, plant and equipment contributed to the increase.

Cash flow from financing activities

2009

Cash used in financing activities was $836 million in 2009, $1,700 million lower than in 2008.

During 2009, share repurchases were reduced to about 12 million shares for $492 million, including shares purchased from ExxonMobil, compared to about 44 million shares purchased in 2008 for $2,210 million. Imperial did not make any significant share repurchases after the second quarter of 2009, as cash flow from operations was used to fund growth projects such as Kearl. The company will continue to evaluate its share-purchase program in the context of its overall capital activities.

In the third quarter, the company entered into a floating rate loan agreement with an affiliated company of Exxon Mobil Corporation that provides for borrowings of up to $5 billion (Canadian) at interest equivalent to Canadian market rates. This facility will enable Imperial to efficiently access funds as necessary in the future. The company has not drawn on this agreement.

The company paid dividends totaling 40 cents a share in 2009, up from 37 cents in 2008.

Total debt outstanding at the end of 2009, excluding the company s share of equity company debt, was $140 million, compared with $143 million at the end of 2008.

2008

Cash used in financing activities was $2,536 million in 2008, compared with $3,956 million in 2007.

In June 2008, another 12-month share repurchase program was implemented. During 2008, the company purchased 44.3 million shares for $2,210 million, including shares purchased from ExxonMobil. Shares outstanding were reduced by five percent from 903 million at the end of 2007 to 859 million at the end of 2008.

The company paid dividends totaling 37 cents a share in 2008, up from 34 cents in 2007.

Total debt outstanding at the end of 2008, excluding the company s share of equity company debt, was $143 million, compared with $146 million at the end of 2007.

Management s discussion and analysis of financial condition and results of operations (continued)

Financial percentages, ratios and credit rating

	2009	2008	2007
Total debt as a percentage of capital (a)	**2**	2	2
Interest coverage ratio earnings basis (b)	**276**	481	67

a) Current and long-term debt (page 80) and the company s share of equity company debt, divided by debt and shareholders equity (page 80).

b) Net income (page 79), debt-related interest before capitalization, including the company s share of equity company interest, and income taxes (page 79), divided by debt-related interest before capitalization, including the company s share of equity company interest.

Debt represented two percent of the company s capital structure at the end of 2009, unchanged from the end of 2008.

Debt-related interest incurred in 2009, before capitalization of interest, was $5 million, compared with $8 million in 2008. The average effective interest rate on the company s debt was 3.3 percent in 2009, compared with 5.5 percent in 2008.

The company s financial strength, as evidenced by the above financial ratios, represents a competitive advantage of strategic importance. The company s sound financial position gives it the opportunity to access capital markets in the full range of market conditions and enables the company to take on large, long-term capital commitments in the pursuit of maximizing shareholder value.

Commitments

The following table shows the company s commitments outstanding at December 31, 2009. It combines data from the consolidated balance sheet and from individual notes to the consolidated financial statements.

	Financial	Payment due by period			
	statement			2015 and	Total
millions of dollars	note reference	2010	2011 to 2014	beyond	Amount
Capitalized lease obligations (a)	Note 14	4	15	15	34
Operating leases (b)	Note 14	72	229	114	