Scorpio Tankers Inc.
Form 20-F
March 23, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

(Mark One)

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

S **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

**OR**

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

**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

**SCORPIO TANKERS INC.**
(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

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

9, Boulevard Charles III Monaco 98000
(Address of principal executive offices)

Mr. Emanuele Lauro,

+377-9898-5716

9, Boulevard Charles III Monaco 98000
(Name, Telephone 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, par value of $0.01 per share | 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
(Title of class)

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, 2011, there were 38,345,394 outstanding common shares with a par value $0.01 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.
Yes £ No S

If this report is an annual or transitional 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.

Yes £ No S

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 requirements for the past 90 days.

Yes S 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).

Yes £ 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” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £

Accelerated filer S

Non-accelerated filer £

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

U.S. GAAP £

International Financial Reporting Standards as issued by the International Accounting Standards Board S

Other £

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.

Item 17 £ 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).
Yes £ No S

**Cautionary Statement Regarding Forward-Looking Statements**

Matters discussed in this report may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. 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. The words "believe," "anticipate," "intends," "estimate," "forecast," "project," "pl "potential," "may," "should," "expect," "pending" and similar expressions identify forward-looking statements.

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, our 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, other important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the failure of counterparties to fully perform their contracts with us, the strength of world economies and currencies, general market conditions, including fluctuations in charter rates and vessel values, changes in demand for tanker vessel capacity, changes in our operating expenses, including bunker prices, drydocking and insurance costs, the market for our vessels, availability of financing and refinancing, charter counterparty performance, ability to obtain financing and comply with covenants in such financing arrangements, 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, vessels breakdowns and instances of off-hires and other factors described from time to time in the reports we file with the SEC. We caution readers of this report not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to update or revise any forward-looking statements. These forward looking statements are not guarantees of our future performance, and actual results and future developments may vary materially from those projected in the forward looking statements. Please see our Risk Factors in Item 3 of this report for a more complete discussion of these and other risks and uncertainties.

In this annual report, "we", "us", "our", and the "Company" all refer to Scorpio Tankers Inc.

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**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 financial data in the tables as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 are derived from our audited consolidated financial statements, which have been presented herein, and which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). This data should be read in conjunction with the consolidated financial statements and the notes thereto included in "ITEM 18. Financial Statements" in this annual report and "ITEM 5. Operating and Financial Review and Prospects."

The selected financial data as of December 31, 2009, 2008 and 2007 and for the periods ended December 31, 2008 and 2007 are derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and are not presented herein.

We began our operations in October 2009, when Liberty Holding Company Ltd., or Liberty, then a wholly-owned subsidiary of Simon Financial Limited, or Simon, a company owned and controlled by the Lolli-Ghetti family, of which our founder, Chairman and Chief Executive Officer, Mr. Emanuele Lauro, is a member, transferred to us three vessel owning and operating subsidiary companies. Prior to October 1, 2009, our historical consolidated financial statements were prepared on a carve-out basis from the financial statements of Liberty. These carve-out financial statements include all assets, liabilities and results of operations of the three vessel-owning subsidiaries owned by us, formerly subsidiaries of Liberty, for the periods presented. For the periods presented, certain of the expenses incurred by these subsidiaries for commercial, technical and administrative management services were under management agreements with other Scorpio Group entities owned and controlled by the Lolli-Ghetti family, consisting of: (i) Scorpio Ship Management S.A.M., or SSM; and Scorpio Commercial Management S.A.M., or SCM; which provide us and third parties with technical and commercial management services, respectively; (ii) Liberty, which provided us with administrative services until March 13, 2012 when the administrative services agreement was assigned to Scorpio Services Holding Limited, or SSH, a company owned by the Lolli-Ghetti family; and (iii) other affiliated entities. Since agreements with related parties are by definition not at arms length, the expenses incurred under these agreements may have been different than the historical costs incurred if the subsidiaries had operated as unaffiliated entities during prior periods. Our estimates of any differences between historical expenses and the expenses that may have been incurred had the subsidiaries been stand-alone entities have been disclosed in the notes to our historical consolidated financial statements.

| | For the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Consolidated Statement of Profit or Loss Data | | | | | |
| Revenue: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Vessel revenue | $82,109,691 | $38,797,913 | $27,619,041 | $39,274,196 | $30,317,138 |
| Operating expenses: | | | | | |
| Vessel operating costs | (31,369,646) | (18,440,492) | (8,562,118) | (8,623,318) | (7,600,509) |
| Voyage expenses | (6,881,019) | (2,542,298) | — | — | — |
| Charter hire | (22,750,257) | (275,532) | (3,072,916) | (6,722,334) | — |
| Impairment (1) | (66,610,544) | — | (4,511,877) | — | — |
| Depreciation | (18,460,117) | (10,178,908) | (6,834,742) | (6,984,444) | (6,482,484) |
| General and administrative expenses | (11,636,713) | (6,200,094) | (416,908) | (600,361) | (590,772) |
| Total operating expenses | (157,708,296) | (37,637,324) | (23,398,561) | (22,930,457) | (14,673,765) |
| **Operating income** | (75,598,605) | 1,160,589 | 4,220,480 | 16,343,739 | 15,643,373 |
| **Other income and expense:** | | | | | |
| Financial expenses | (7,060,027) | (3,230,895) | (699,115) | (1,710,907) | (1,953,344) |
| Realized loss on derivative financial instruments | — | (279,560) | (808,085) | (405,691) | (523,694) |
| Unrealized gain on derivative financial instruments | — | — | 956,120 | (2,057,957) | (1,245,472) |
| Financial income | 51,008 | 36,534 | 4,929 | 35,492 | 142,233 |
| Other expense, net | (118,968) | (508,766) | (256,292) | (18,752) | (9,304) |
| Total other income and expense | (7,127,987) | (3,982,687) | (802,443) | (4,157,815) | (3,589,581) |
| Net (loss)/income | $(82,726,592) | $(2,822,098) | $3,418,037 | $12,185,924 | $12,053,792 |
| **(Loss)/earnings per common share: (2)** | | | | | |
| Basic and diluted (loss)/earnings per share | $(2.88) | $(0.18) | $0.61 | $2.18 | $2.16 |
| Basic and diluted weighted average shares outstanding | 28,704,876 | 15,600,813 | 5,589,147 | 5,589,147 | 5,589,147 |

1

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Balance Sheet Data | | | | | |
| Cash and cash equivalents | $36,833,090 | $68,186,902 | $444,496 | $3,607,635 | $1,153,743 |
| Vessels and drydock | 322,457,755 | 333,425,386 | 99,594,267 | 109,260,102 | 116,244,546 |
| Vessels under construction | 60,332,870 | — | — | — | — |
| Total assets | 448,229,772 | 412,268,440 | 104,423,386 | 117,111,827 | 122,555,022 |
| Current and non-current bank loans | 145,567,511 | 143,188,402 | 36,200,000 | 43,400,000 | 47,000,000 |
| Shareholder payable [(3)] | — | — | — | 22,028,323 | 19,433,097 |
| Related party payable [(3)] | — | — | | 27,406,408 | 27,406,408 |
| Shareholders' equity | 286,853,227 | 264,783,182 | 61,328,542 | 20,299,166 | 6,897,242 |

| | For the year Ended December 31, 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Condensed Cash Flows | | | | | |
| Net cash inflow/(outflow): | | | | | |
| Operating activities | $(12,451,163) | $4,906,478 | $9,305,851 | $24,837,892 | $5,830,733 |
| Investing activities | (122,573,437) | (245,594,809) | — | — | — |
| Financing activities | 103,670,788 | 308,430,737 | (12,468,990) | (22,384,000) | (10,693,500) |

(1) In the years ended December 31, 2011 and December 31, 2009, we recorded an impairment charge of $66.6 million for all 12 of our vessels and $4.5 million for two of our vessels, respectively. See Item 5. “Operating and Financial Review and Prospects”.

(2) Basic earnings per share is calculated by dividing the net income attributable to equity holders of the parent by the weighted average number of common shares outstanding assuming, for the period prior to October 1, 2009, when our historical consolidated financial statements were prepared on a carve-out basis, that the reorganization described in Note 1 "Basis of Accounting" in the consolidated financial statements as of and for the year ended December 31, 2011 was effective during the period. In addition, the stock split which occurred on March 17, 2010 has been given retroactive effect for all periods presented herein. Diluted earnings per share are calculated by adjusting the net income attributable to equity holders of the parent and the weighted average number of common shares used for calculating basic earnings per share for the effects of all potentially dilutive shares. Such potentially dilutive common shares are excluded when the effect would be to increase earnings per share or reduce a loss per share. There were no such dilutive or antidilutive instruments in the current year.

(3) On November 18, 2009, the shareholder payable and the related party payable balances, as of that date, were converted to equity as a capital contribution.

The following table sets forth our other operating data. This data should be read in conjunction with “ITEM 5. Operating and Financial Review and Prospects.”

| | For the year ended December 31, 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Average Daily Results | | | | | |
| Time charter equivalent per day[1] | $12,898 | $16,213 | $23,423 | $29,889 | $27,687 |
| Vessel operating costs per day[2] | 7,581 | 8,166 | 7,819 | 7,875 | 6,941 |
| *Aframax/LR2* | | | | | |
| TCE per revenue day - pool | 14,849 | 12,460 | — | — | — |
| TCE per revenue day - time charters | 15,457 | — | — | — | — |
| Vessel operating costs per day[2] | 6,960 | 8,293 | — | — | — |
| *Panamax/LR1* | | | | | |
| TCE per revenue day - pool | 12,876 | 15,213 | 21,425 | 36,049 | 29,848 |
| TCE per revenue day - spot | — | 2,839 | — | — | — |
| TCE per revenue day - time charters | 23,962 | 22,729 | 24,825 | 24,992 | 24,382 |
| Vessel operating costs per day[2] | 7,891 | 8,189 | 7,819 | 7,875 | 6,941 |

| | | | | | |
|---|---|---|---|---|---|
| *Handymax* | | | | | |
| TCE per revenue day - pool | 11,343 | 9,965 | — | — | — |
| TCE per revenue day - spot | — | 8,077 | — | — | — |
| Vessel operating costs per day[(2)] | 7,619 | 8,107 | — | — | — |
| | | | | | |
| *MR* | | | | | |
| TCE per revenue day - spot | 12,092 | — | — | — | — |
| Vessel operating costs per day[(2)] | 6,748 | — | — | — | — |
| | | | | | |
| **Fleet data** | | | | | |
| Average number of owned vessels | 11.29 | 6.19 | 3.00 | 3.00 | 3.00 |
| Average number of time chartered-in vessels | 4.95 | 0.06 | 0.33 | 0.59 | — |
| **Drydock** | | | | | |
| Expenditures for drydock | $2,624,094 | $974,430 | $1,680,784 | $— | $— |

(1) Freight rates are commonly measured in the shipping industry in terms of time charter equivalent per revenue day. Vessels in the pool and on time charter do not have voyage expenses; therefore, the revenue for pool vessels and time charter vessels is the same as their TCE revenue. Please see “Important financial and operational terms and concepts” section below for a discussion of TCE revenue, revenue days and voyage expenses.

(2) Vessel operating costs per day represent, Vessel operating costs, as such term is defined in the “Important financial and operational terms and concepts” section below, divided by the number of days the vessel is owned during the period.

(3) For a definition of items listed under “Fleet Data,” please see the section of this annual report entitled ITEM 5. “Operating and Financial Review and Prospects”.

**B. Capitalization and indebtedness**

Not applicable.

**C. Reasons for the offer and use of proceeds**

Not applicable.

**D. Risk Factors**

*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, operating results or cash available for dividends or the trading price of our common stock.*

**RISKS RELATED TO OUR INDUSTRY**

**If the tanker industry, which historically has been cyclical, continues to be depressed in the future, our earnings and available cash flow may be adversely affected.**

The tanker industry is both cyclical and volatile in terms of charter rates and profitability. A worsening of the current global economic conditions may adversely affect our ability to charter or recharter our vessels or to sell them on the expiration or termination of their charters and the rates payable in respect of our vessels currently operating in tanker pools, or any renewal or replacement charters that we enter into may not be sufficient to allow us to operate our vessels profitably. Fluctuations in charter rates and tanker values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for oil and oil products. The factors affecting the supply and demand for tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The factors that influence demand for tanker capacity include:

- supply and demand for oil and oil products;
- regional availability of refining capacity and inventories;
- global and regional economic and political conditions, including armed conflicts, terrorist activities, and strikes;
- the distance oil and oil products are to be moved by sea;
- changes in seaborne and other transportation patterns;
- environmental and other legal and regulatory developments;
- weather and natural disasters;
- competition from alternative sources of energy; and
- international sanctions, embargoes, import and export restrictions, nationalizations and wars.

The factors that influence the supply of tanker capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- conversion of tankers to other uses;
- the number of vessels that are out of service;
- environmental concerns and regulations.; and
- port or canal congestion.

**We are dependent on spot-oriented pools and spot charters and any decrease in spot charter rates in the future may adversely affect our earnings.**

All of our vessels are employed in either the spot market or in the Scorpio Group Pools, which are spot market-oriented tanker pools, exposing us to fluctuations in spot market charter rates. The spot charter market may fluctuate significantly based upon tanker and oil supply and demand. The successful operation of our vessels in the competitive spot charter market, including within the Scorpio Group Pools, depends on, among other things, obtaining

profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. The spot market is very volatile, and, in the past, there have been periods when spot rates have declined below the operating cost of vessels. If future spot charter rates decline, then we may be unable to operate our vessels trading in the spot market profitably, meet our obligations, including payments on indebtedness, or to pay dividends in the future. Furthermore, as charter rates for spot charters are fixed for a single voyage which may last up to several weeks, during periods in which spot charter rates are rising, we will generally experience delays in realizing the benefits from such increases.

Our ability to negotiate new charters on our vessels, the charter rates payable under any charters and vessel values will depend upon, among other things, economic conditions in the sectors in which our vessels operate at that time, changes in the supply and demand for vessel capacity and changes in the supply and demand for the seaborne transportation of energy resources.

**An over-supply of tanker capacity may lead to reductions in charter rates, vessel values, and profitability.**

The market supply of tankers is affected by a number of factors such as demand for energy resources, oil, and petroleum products, as well as strong overall economic growth in parts of the world economy including Asia. If the capacity of new ships delivered exceeds the capacity of tankers being scrapped and lost, tanker capacity will increase. In addition, according to Drewry Shipping Consultants Ltd., or Drewry, as of the end of February 2012, the newbuilding order book, which extends to 2015 equaled approximately 14.8% of the existing world tanker fleet and the order book may increase further in proportion to the existing fleet. If the supply of tanker capacity increases and if the demand for tanker capacity decreases or does not increase correspondingly, charter rates could materially decline. A reduction in charter rates and the value of our vessels may have a material adverse effect on our results of operations and available cash.

**Acts of piracy on ocean-going vessels 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, the Indian Ocean and in the Gulf of Aden. Although sea piracy worldwide decreased slightly in 2011 for the first time in five years, throughout 2008, 2009 and 2010, the frequency of piracy incidents increased significantly, particularly in the Gulf of Aden off the coast of Somalia. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones by insurers or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ 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, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, results of operations, cash flows and financial condition and 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.

**The current state of the global financial markets and current economic conditions may adversely impact our ability to obtain financing on acceptable terms and otherwise negatively impact our business.**

Global financial markets and economic conditions have been, and continue to be, volatile. Recently, operating businesses in the global economy have faced tightening credit, weakening demand for goods and services, deteriorating international liquidity conditions, and declining markets. There has been a general decline in the willingness by banks and other financial institutions to extend credit, particularly in the shipping industry, due to the historically volatile asset values of vessels. As the shipping industry is highly dependent on the availability of credit to finance and expand operations, it has been negatively affected by this decline.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that financing will be available if needed and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

**If economic conditions throughout the world do not improve, it will impede our operations.**

Negative trends in the global economy that emerged in 2008 continue to adversely affect global economic conditions. In addition, the world economy is currently facing a number of new challenges, including uncertainty related to the continuing discussions in the United States regarding the federal debt ceiling and recent turmoil and hostilities in the Middle East, North Africa and other geographic areas and countries. There has historically been a strong link between the development of the world economy and demand for energy, including oil and gas. An extended period of deterioration in the outlook for the world economy could reduce the overall demand for oil and gas and for our services. Such changes could adversely affect our results of operations and cash flows.

The United States, the European Union and other parts of the world have recently been or are currently in a recession and continue to exhibit weak economic trends. The credit markets in the United States and Europe have experienced significant contraction, de-leveraging and reduced liquidity, and the U.S. federal government and state governments and European authorities 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 Securities and Exchange Commission, or the SEC, and 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. Global financial markets and economic conditions have been, and continue to be, severely disrupted and volatile. Credit markets and the debt and equity capital markets have been exceedingly distressed.

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. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations and may cause the price of our common stock to decline.

**Changes in fuel, or bunkers, prices may adversely affect profits.**

Fuel, or bunkers, is typically the largest expense in our shipping operations for our vessels and 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 the Organization of the Petroleum Exporting Countries, or 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.

**We are subject to complex laws and regulations, including environmental laws and regulations that can adversely affect our business, results of operations, cash flows and financial condition, and our available cash.**

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 U.S. Oil Pollution Act of 1990, or OPA, the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, the U.S. Clean Air Act, U.S. Clean Water Act and the U.S. Marine Transportation Security Act of 2002, and regulations of the International Maritime Organization, or the IMO, including the International Convention for the Prevention of Pollution from Ships of 1975, the 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, and the International Ship and Port Facility Security Code. Compliance with such laws and regulations, 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, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. The 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes or changes to existing laws that may affect our operations or require us to incur additional expenses to comply with such regulatory initiatives, statutes or laws.

These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition and our available cash. 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-nautical mile exclusive economic zone around the United States (unless the spill results solely from the act or omission of a third party, an act of God or an act of war). An oil spill could result in significant liability, including fines, penalties, criminal liability and remediation costs for natural resource damages under other international and U.S. federal, state and local laws, as well as third-party damages, including punitive damages, and could harm our reputation with current or potential charterers of our tankers. 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 available cash.

**If we fail to comply with international safety regulations, we may be subject to increased liability, which 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 IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code, promulgated by the IMO under the International Convention for the Safety of Life at Sea of 1974, or SOLAS. The ISM Code requires the party with operational control of a vessel to develop and maintain an extensive "Safety Management System" that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. If we fail to comply with the ISM Code, we may be subject to increased liability, may invalidate existing insurance or decrease available insurance coverage for our affected vessels and such failure may result in a denial of access to, or detention in, certain ports.

**Adverse market conditions could cause us to breach covenants in our credit facilities and adversely affect our operating results.**

The market values of tankers have generally experienced high volatility. The market prices for tankers declined significantly from historically high levels reached in early 2008 and remain 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 charterhire rates, competition from other shipping companies and other modes of transportation, types, sizes and ages of vessels, competition from other tanker companies, applicable governmental regulations and the cost of newbuildings. If the market value of our fleet declines, we may not be able to obtain additional financing or incur debt on terms that are acceptable to us, or at all. We believe that the current aggregate market value of our vessels will be in excess of loan to value amounts required under our credit facilities, which requires that the fair market value of the vessels pledged as collateral never be less than 150% of the aggregate principal amount outstanding for the 2010 Revolving Credit Facility and 2011 Credit Facility, 140% of the aggregate principal amount outstanding for the STI Spirit Credit Facility and 140% (130% if the vessel is subject to acceptable long term employment) of the aggregate principal amount outstanding plus a pro rata amount of any allocable swap exposure for the Newbuilding Credit Facility. In addition, each of our 2010 Revolving Credit Facility, 2011 Credit Facility and STI Spirit Credit Facility require us to maintain a ratio of EBITDA to interest expense of no less than 1.25 to 1.00 commencing with the fourth fiscal quarter of 2011 through the fourth quarter of 2012, at which time it will increase to 1.50 to 1.00 for the first quarter of 2013, 1.75 to 1.00 for the second quarter of 2013, and 2.00 to 1.00 at all times thereafter. Our Newbuilding Credit Facility requires us to maintain a ratio of EBITDA to interest expense of not less than 2.00 to 1.00 through the fourth quarter of 2012 and 2.50 to 1.00 at all times thereafter. Such ratio in all our credit facilities shall be calculated quarterly on a trailing four quarter basis. A decrease in vessel values or a failure to meet these ratios could cause us to breach certain covenants in our existing credit facilities and future financing agreements that we may enter into from time to time. If we breach such covenants and are unable to remedy the relevant breach or obtain a waiver, our lenders could accelerate our debt and foreclose on vessels in our fleet. If we sell any vessel at any time when vessel values 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 on our financial statements, resulting in a loss and a reduction in earnings. For the year ended December 31, 2011, we evaluated the recoverable amount of our vessels, and we recognized a total impairment loss of $66.6 million for all of our owned vessels. In February 2012, we entered into agreements to sell the *STI Conqueror* for $21.0 million and the *STI Matador* and *STI Gladiator* for $16.2 million each. As a result of these sales, we recognized an additional loss of $4.0 million. See "—Risks related to our indebtedness" and "ITEM 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources, Long-Term Debt Obligations and Credit Arrangements" for a more comprehensive discussion of our current credit facilities and the related risks.

**If our vessels suffer damage due to the inherent operational risks of the tanker industry, we may experience unexpected drydocking costs and delays or total loss of our vessels, which may adversely affect our business and financial condition.**

The operation of an ocean-going vessel carries inherent risks. Our vessels and their cargoes will be at risk of being damaged or lost because of events such as marine disasters, bad weather, and other acts of God, business interruptions caused by mechanical failures, grounding, fire, explosions and collisions, human error, war, terrorism, piracy and other circumstances or events. Changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These hazards may result in death or injury to persons, loss of revenues or property, the payment of ransoms, environmental damage, higher insurance rates, damage to our customer relationships, and market disruptions, delay or rerouting, which may also subject us to litigation. In addition, the operation of tankers has unique operational risks associated with the transportation of oil. An oil spill may cause significant environmental damage, and the associated costs could exceed the insurance coverage available to us. Compared to other types of vessels, tankers are exposed to a higher risk of damage and loss by fire, whether ignited by a terrorist attack, collision, or other cause, due to the high flammability and high volume of the oil transported in tankers.

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and may be substantial. We may have to pay drydocking costs that our insurance does not cover in full. The loss of revenues while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, may adversely affect our business and financial condition. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or our vessels may be forced to travel to a drydocking facility that is not conveniently located to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to travel to more distant drydocking facilities may adversely affect our business and financial condition. Further, the total loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator. If we are unable to adequately maintain or safeguard our vessels, we may be unable to prevent any such damage, costs, or loss which could negatively impact our business, financial condition, results of operations and available cash.

**We operate our vessels worldwide and as a result, our vessels are exposed to international risks which may reduce revenue or increase expenses.**

The international shipping industry is an inherently risky business involving global operations. Our vessels and their cargoes will be at risk of being damaged or lost because of events such as marine disasters, bad weather, and other acts of God, business interruptions caused by mechanical failures, grounding, fire, explosions and collisions, human error, war, terrorism, piracy and other circumstances or events. In addition, changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These sorts of events could interfere with shipping routes and result in market disruptions which may reduce our revenue or increase our expenses.

International shipping is subject to various security and customs inspection and related procedures in countries of origin and destination and trans-shipment points. Inspection procedures can result in the seizure of the cargo and/or our vessels, delays in the 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. Furthermore, 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, results of operations, cash flows, financial condition and available cash.

**Political instability, terrorist or other attacks, war or international hostilities can affect the tanker industry, which may adversely affect our business.**

We conduct most of our operations outside of the United States, and our business, results of operations, cash flows, financial condition and available cash may be adversely affected by the effects of political instability, terrorist or other attacks, war or international hostilities. Continuing conflicts and recent developments in the Middle East, including Egypt, and North Africa, including Libya, and the presence of the 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 world economic instability and uncertainty in global financial markets. As a result of the above, insurers have increased premiums and reduced or restricted coverage for losses caused by terrorist acts generally. Future terrorist attacks could result in increased volatility of the financial markets and negatively impact the U.S. and global economy. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all.

In the past, political instability has also resulted in attacks on vessels, such as the attack on the M/T *Limburg,* a very large crude carrier not related to us, in October 2002, 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 business, financial condition, results of operations and available cash.

**If our vessels call on ports located in countries that are subject to sanctions and embargos imposed by the U.S. or other governments that could adversely affect our reputation and the market for our common stock.**

Although no vessels operated by us have called on ports located in countries subject to sanctions and embargoes imposed by the U.S. government and countries identified by the U.S. government as state sponsors of terrorism, such as Cuba, Iran, Sudan, and Syria, in the future, our vessels may call on ports in these countries from time to time on charterers' instructions. Sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or "CISADA", which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to non-U.S. companies, such as our company, and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. Although we believe that we are in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in our company. Additionally, some investors may decide to divest their interest, or not to invest, in our company simply because we do business with companies that do business in sanctioned countries. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. Investor perception of the value of our common stock may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

**The smuggling of drugs or other contraband onto our vessels may lead to governmental claims against us.**

We expect that our vessels will call in ports where smugglers attempt to hide drugs and other contraband on vessels, with or without the knowledge of crew members. To the extent our vessels are found with contraband, whether inside or attached to the hull of our vessel and whether with or without the knowledge of any of our crew, we may face governmental or other regulatory claims which could have an adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

**Maritime claimants could arrest our vessels, which would have a negative effect on our cash flows.**

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 maritime lien holder may enforce its lien by arresting or attaching a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our business or require us to pay large sums of money to have the arrest lifted, which would have a negative effect on our cash flows.

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 try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our ships.

**Governments could requisition our vessels during a period of war or emergency, which may negatively impact our business, financial condition, results of operations and available cash.**

A government could requisition one or more of our vessels for title or hire. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels may negatively impact our business, financial condition, results of operations and available cash.

**Technological innovation could reduce our charterhire income and the value of our vessels.**

The charterhire rates and the value and operational life of a vessel are determined by a number of factors including the vessel's efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy and the ability to load and discharge cargo quickly. Flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits. The length of a vessel's physical life is related to its original design and construction, its maintenance and the impact of the stress of operations. If new tankers are built that are more efficient or more flexible or have longer physical lives than our vessels, competition from these more technologically advanced vessels could adversely affect the amount of charterhire payments we receive for our vessels and the resale value of our vessels could significantly decrease. As a result, our available cash could be adversely affected.

**If labor interruptions are not resolved in a timely manner, they could have a material adverse effect on our business, results of operations, cash flows, financial condition and available cash.**

We, indirectly through SSM, employ masters, officers and crews to man our vessels. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder our operations from being carried out as we expect and could have a material adverse effect on our business, results of operations, cash flows, financial condition and available cash.

**RISKS RELATED TO OUR BUSINESS**

**We have a limited history of operations on which investors may assess our performance.**

We were formed on July 1, 2009, and our initial three vessel-owning subsidiaries were transferred to us on October 1, 2009. Since our initial public offering in April 2010, we have acquired nine additional vessels, sold three vessels and chartered-in 13 vessels. As such, we have been operating the majority of our vessels for less than two years. We have a limited performance record and operating history, and, therefore, limited historical financial information, upon which you can evaluate our operating performance, ability to implement and achieve our business strategy or ability to pay dividends in the future. We cannot assure you that we will be successful in implementing our business strategy. As a young company, we will face certain operational challenges not faced by companies with a longer operating history.

**Obligations associated with being a public company require significant company resources and management attention.**

In April 2010, we became subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the other rules and regulations of the SEC, including the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal controls over financial reporting. If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We will need to dedicate a significant amount of time and resources to ensure compliance with these regulatory requirements.

We will continue to evaluate areas such as corporate governance, corporate control, internal audit, disclosure controls and procedures and financial reporting and accounting systems. We will make changes in any of these and other areas, including our internal control over financial reporting, which we believe are necessary. However, these and other measures we may take may not be sufficient to allow us to satisfy our obligations as a public company on a timely and reliable basis. In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for us and will require the time and attention of management. Our limited management resources may exacerbate the difficulties in complying with these reporting and other requirements while focusing on executing our business strategy. Our incremental general and administrative expenses as a publicly traded corporation will include costs associated with annual reports to shareholders, tax returns, investor relations, registrar and transfer agent's fees, incremental director and officer liability insurance costs and director compensation. We cannot predict or estimate the amount of the additional costs we may incur, the timing of such costs or the degree of impact that our management's attention to these matters will have on our business.

**We may have difficulty managing our planned growth properly.**

One of our principal strategies is to continue to grow by expanding our operations and adding to our fleet. Our future growth will primarily depend upon a number of factors, some of which may not be within our control. These factors include our ability to:

- identify suitable tankers and/or shipping companies for acquisitions at attractive prices;
- obtain required financing for our existing and new operations;
- identify businesses engaged in managing, operating or owning tankers for acquisitions or joint ventures;
- integrate any acquired tankers or businesses successfully with our existing operations, including obtaining any approvals and qualifications necessary to operate vessels that we acquire;
- hire, train and retain qualified personnel and crew to manage and operate our growing business and fleet;
- identify additional new markets;
- enhance our customer base; and
- improve our operating, financial and accounting systems and controls.

Our failure to effectively identify, purchase, develop and integrate any tankers or businesses could adversely affect our business, financial condition and results of operations. The number of employees that perform services for us and our current operating and financial systems may not be adequate as we implement our plan to expand the size of our fleet, and we may not be able to effectively hire more employees or adequately improve those systems. Finally, acquisitions may require additional equity issuances or debt issuances (with amortization payments), both of which could lower available cash. If we are unable to execute the points noted above, our financial condition may be adversely affected.

Growing any business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty in obtaining additional qualified personnel and managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures. The expansion of our fleet may impose significant additional responsibilities on our management and staff, and the management and staff of our commercial and technical

managers, and may necessitate that we, and they, increase the number of personnel. 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.

**In the event Hyundai Mipo Dockyard Ltd. ("Hyundai") does not perform under its agreements with us for the construction of our Newbuilding Vessels and we are unable to enforce certain refund guarantees, we may lose all or part of our investment, which would have a material adverse effect on our results of operations, financial condition and cash flows.**

Our seven Newbuilding Vessels are currently under construction with Hyundai. As of March 23, 2012, we have made total yard payments in the amount of $72.7 million and we have remaining yard installments in the amount of $186.6 million before we take possession of these vessels.

In the event Hyundai does not perform under the contracts and we are unable to enforce certain refund guarantees with third party banks for any reason, we may lose all or part of our investment, which would have a material adverse effect on our results of operations, financial condition and cash flows.

**Delays in deliveries of additional vessels, our decision to cancel an order for purchase of a vessel or our inability to otherwise complete the acquisitions of additional vessels for our fleet, could harm our operating results.**

We currently have seven Newbuilding Vessels under construction at Hyundai which are scheduled to be delivered to the Company between July 2012 and April 2013. The delivery of such vessels or vessels that we may acquire in the future could be delayed, not completed or cancelled, which would delay or eliminate our expected receipt of revenues from the employment of such vessels. In addition, the yard or a seller could fail to deliver vessels to us as agreed, or we could cancel a purchase contract because such yard or seller has not met its obligations.

If the delivery of any vessel is materially delayed or cancelled, especially if we have committed the vessel to a charter for which we become responsible for substantial liquidated damages to the customer as a result of the delay or cancellation, our business, financial condition and results of operations could be adversely affected.

**If we purchase and operate secondhand vessels, we will be exposed to increased operating costs which could adversely affect our earnings and, as our fleet ages, the risks associated with older vessels could adversely affect our ability to obtain profitable charters.**

Our current business strategy includes additional growth through the acquisition of new and secondhand vessels. While we typically inspect secondhand vessels prior to purchase, this does not provide us with the same knowledge about their condition that we would have had if these vessels had been built for and operated exclusively by us. Generally, we do not receive the benefit of warranties from the builders for the secondhand vessels that we acquire.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel-efficient 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, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment, to our vessels and may restrict the type of activities in which the vessels may engage. As our vessels age, market conditions may not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

**An increase in operating costs would decrease earnings and available cash.**

Under time charter agreements, the charterer is responsible for voyage costs and the owner is responsible for the vessel operating costs. We currently have no vessels on time charter agreements. Under the tanker pool agreements, the pool is responsible for the voyage expenses and we are responsible for vessel costs. We currently have nine of our

owned vessels operating in pools. We are responsible for both voyage expenses and vessel operating costs for vessels operating in the spot market. We currently have two of our owned vessels operating in the spot market. Our vessel operating costs include the costs of crew, fuel (for spot chartered vessels), provisions, deck and engine stores, insurance and maintenance and repairs, which depend on a variety of factors, many of which are beyond our control. Some of these costs, primarily relating to insurance and enhanced security measures implemented after September 11, 2001, have been increasing. If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydocking repairs are unpredictable and can be substantial. Increases in any of these expenses would decrease earnings and available cash.

**Declines in charter rates and other market deterioration could cause us to incur impairment charges.**

We evaluate the carrying amounts of our vessels to determine if events have occurred that would require an impairment of their carrying amounts. The recoverable amount of vessels is reviewed based on events and changes in circumstances that would indicate that the carrying amount of the assets might not be recovered. The review for potential impairment indicators and projection of future cash flows related to the vessels is complex and requires us to make various estimates including future freight rates, earnings from the vessels and discount rates. All of these items have been historically volatile.

We evaluate the recoverable amount as the higher of fair value less costs to sell and value in use. If the recoverable amount is less than the carrying amount of the vessel, the vessel is deemed impaired. The carrying values of our vessels may not represent their fair market value at any point in time because the new market prices of secondhand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. For the year ended December 31, 2009, charter rates in the oil and petroleum products charter market declined significantly and Panamax vessel values also declined, both as a result of a slowdown in the availability of global credit and the significant deterioration in charter rates. Due to these indicators of potential impairment, in the year ended December 31, 2009, we evaluated the recoverable amount of our vessels, and we recognized a total impairment loss of $4.5 million for two of our vessels. In the year ended 2010, we did not record an impairment charge. For the year ended December 31, 2011, charter rates in the oil and petroleum products charter market further declined along with second hand vessel values. Due to these indicators of potential impairment, in the year ended December 31, 2011, we evaluated the recoverable amount of our vessels, and we recognized a total impairment loss of $66.6 million for all of our owned vessels. We cannot assure you that there will be not be further impairments in future years. Any additional impairment charges incurred as a result of further declines in charter rates could negatively affect our business, financial condition, operating results or the trading price of our common shares.

**If we are unable to operate our vessels profitably, we may be unsuccessful in competing in the highly competitive international tanker market, which would negatively affect our financial condition and our ability to expand our business.**

The operation of tanker vessels and transportation of crude and petroleum products is extremely competitive, in an industry that is capital intensive and highly fragmented. The recent global financial crisis may reduce the demand for transportation of oil and oil products which could lead to increased competition. Competition arises primarily from other tanker owners, including major oil companies as well as independent tanker companies, some of whom have substantially greater resources than we do. Competition for the transportation of oil and oil products can be intense and depends on price, location, size, age, condition and the acceptability of the tanker and its operators to the charterers. We will have to compete with other tanker owners, including major oil companies as well as independent tanker companies.

Our market share may decrease in the future. We may not be able to compete profitably as we expand our business into new geographic regions or provide new services. New markets may require different skills, knowledge or strategies than we use in our current markets, and the competitors in those new markets may have greater financial strength and capital resources than we do.

**If we do not set aside funds and are unable to borrow or raise funds for vessel replacement, at the end of a vessel's useful life our revenue will decline, which would adversely affect our business, results of operations, financial condition, and available cash.**

If we do not set aside funds and are unable to borrow or raise funds for vessel replacement, we will be unable to replace the vessels in our fleet upon the expiration of their remaining useful lives, which we expect to occur between 2026 to 2038, depending on the vessel. Our cash flows and income are dependent on the revenues earned by the

chartering of our vessels. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our business, results of operations, financial condition, and available cash per share would be adversely affected. Any funds set aside for vessel replacement will reduce available cash.

**Our ability to obtain additional financing may be dependent on the performance of our then existing charters and the creditworthiness of our charterers.**

The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the additional capital resources that we will require to purchase additional vessels or may significantly increase our costs of obtaining such capital. Our inability to obtain additional financing at all or at a higher than anticipated cost may materially affect our results of operation and our ability to implement our business strategy.

**United States tax authorities could treat us as a "passive foreign investment company," which could have adverse United States federal income tax consequences to United States shareholders.**

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for United States 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." United States shareholders of a PFIC are subject to a disadvantageous United States 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, our income from our time and voyage chartering activities should not constitute "passive income," and the assets that we own and operate in connection with the production of that income should not constitute assets that produce or are held for the production of "passive income."

There is substantial legal authority supporting this position, consisting of case law and United States 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 that 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 change.

If the IRS were to find that we are or have been a PFIC for any taxable year, our United States shareholders would face adverse United States federal income tax consequences and incur certain information reporting obligations. Under the PFIC rules, unless those shareholders make an election available under the United States Internal Revenue Code of 1986, as amended, or the Code (which election could itself have adverse consequences for such shareholders), such shareholders would be subject to United States federal income tax at the then prevailing rates on ordinary income plus interest, in respect of excess distributions and upon any gain from the disposition of their common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of the common shares. See "Taxation—Passive Foreign Investment Company Status and Significant Tax Consequences" for a more comprehensive discussion of the United States federal income tax consequences to United States shareholders if we are treated as a PFIC.

**We may have to pay tax on United States source shipping income, which would reduce our earnings.**

Under the Code, 50% of the gross shipping income of a corporation that owns or charters vessels, as we and our subsidiaries do, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States may be subject to a 4% United States federal income tax without allowance for deductions, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the regulations promulgated thereunder by the United States Department of the Treasury.

We and our subsidiaries intend to take the position that we qualify for this statutory tax exemption for United States 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 and thereby become subject to United States federal income tax on our United States source shipping income. For example, we may no longer qualify for exemption under Section 883 of the Code for a particular taxable year if shareholders with a five percent or greater interest in our common shares, or "5% Shareholders," owned, in the aggregate, 50% or more of our outstanding common shares for more than half the days during the taxable year, and there does not exist sufficient 5% Shareholders that are qualified shareholders for purposes of Section 883 of the Code to preclude nonqualified 5% Shareholders from owning 50% or more of our common shares for more than half the number of days during such taxable year or we are unable to satisfy certain substantiation requirements with regard to our 5% Shareholders. Due to the factual nature of the issues involved, there can be no assurances on the tax-exempt status of us or any of our subsidiaries.

If we or our subsidiaries were not entitled to exemption under Section 883 of the Code for any taxable year, we or our subsidiaries could be subject for such year to an effective 2% United States federal income tax on the shipping income we or they derive during such year which is attributable to the transport of cargoes to or from the United States. The imposition of this taxation would have a negative effect on our business and would decrease our earnings available for distribution to our shareholders.

**Any dividends paid by us may not qualify for preferential rates of United States federal income taxation in the hands of United States non-corporate shareholders.**

We expect that any dividends paid on our common shares to a United States shareholder who is an individual, trust or estate will generally be treated as "qualified dividend income" that is taxable at preferential United States federal income tax rates (through 2012). Our dividends will be so treated provided that (1) our common shares are readily tradable on an established securities market in the United States (such as the New York Stock Exchange, on which our common shares are traded); (2) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we believe we have not been, are not and do not anticipate being in the future); (3) the recipient of the dividend has owned the common shares for more than 60 days in the 121-day period beginning 60 days before the date on which the common shares become ex-dividend; and (4) the recipient of the dividend is not under an obligation to make related payments with respect to positions in substantially similar or related property.

There is no assurance that any dividends paid on our common shares will be eligible for these preferential rates in the hands of a United States non-corporate shareholder. For example, under current law, the preferential rate for qualified dividend income is scheduled to expire on December 31, 2012. If the preferential rate for such dividends is not extended, then any dividends paid by us after December 31, 2012 will be treated as ordinary income. In addition, legislation has been previously introduced in the United States Congress which, if enacted in its present form, would preclude our dividends from qualifying for such preferential rates prospectively from the date of enactment. Finally, our dividends would not be "qualified dividend income" if we are treated as a PFIC for the taxable year in which we pay the dividend or the immediately preceding taxable year.

**We will be required to make additional capital expenditures to expand the number of vessels in our fleet and to maintain all our vessels, which will be dependent on additional financing.**

Our business strategy is based in part upon the expansion of our fleet through the purchase of additional vessels. If we are unable to fulfill our obligations under any memorandum of agreement for future vessel acquisitions, the sellers of such vessels may be permitted to terminate such contracts and we may forfeit all or a portion of the down payments we already made under such contracts, and we may be sued for any outstanding balance.

In addition, we will incur significant maintenance costs for our existing and any newly-acquired vessels. A newbuilding vessel must be drydocked within five years of its delivery from a shipyard, and vessels are typically

drydocked every 30 months thereafter, not including any unexpected repairs. We estimate the cost to drydock a vessel to be between $500,000 and $1,000,000, depending on the size and condition of the vessel and the location of drydocking.

**We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law and, as a result, shareholders may have fewer rights and protections under Marshall Islands law than under a typical jurisdiction in the United States.**

Our corporate affairs are governed by our articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or 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 Republic of The Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic 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 certain United States jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our public shareholders may have more difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

**It may be difficult to serve process on or enforce a United States judgment against us, our officers and our directors because we are a foreign corporation.**

We are a corporation formed in the Republic of The Marshall Islands, and some of our directors and officers and certain of the experts named in this offering are located outside the United States. In addition, a substantial portion of our assets and the assets of our directors, officers and experts are located outside of the United States. As a result, you may have difficulty serving legal process within the United States upon us or any of these persons. You may also have difficulty enforcing, both in and outside the United States, judgments you may obtain in U.S. courts against us or any of these persons in any action, including actions based upon the civil liability provisions of U.S. federal or state securities laws. Furthermore, there is substantial doubt that the courts of the Republic of The Marshall Islands or of the non-U.S. jurisdictions in which our offices are located would enter judgments in original actions brought in those courts predicated on U.S. federal or state securities laws.

**RISKS RELATED TO OUR RELATIONSHIP WITH SCORPIO GROUP AND ITS AFFILIATES**

**We are dependent on our managers and their ability to hire and retain key personnel, and there may be conflicts of interest between us and our managers that may not be resolved in our favor.**

Our success depends to a significant extent upon the abilities and efforts of our technical manager, SSM, our commercial manager, SCM, and our management team. Our success will depend upon our and our managers' ability to hire and retain key members of our management team. The loss of any of these individuals could adversely affect our business prospects and financial condition.

Difficulty in hiring and retaining personnel could adversely affect our results of operations. We do not maintain "key man" life insurance on any of our officers.

Our technical and commercial managers are affiliates of Scorpio Group, which is owned and controlled by the Lolli-Ghetti family, of which our founder, Chairman and Chief Executive Officer, Mr. Emanuele Lauro, is a member. Conflicts of interest may arise between us, on the one hand, and our commercial and technical managers, on the other hand. As a result of these conflicts, our commercial and technical managers, who have limited contractual duties, may favor their own or their owner's interests over our interests. These conflicts may have unfavorable results for us.

**Our founder, Chairman and Chief Executive Officer has affiliations with our commercial and technical managers which may create conflicts of interest.**

Emanuele Lauro, our founder, Chairman and Chief Executive Officer, is a member of the Lolli-Ghetti family which owns and controls our commercial and technical managers. These responsibilities and relationships could create conflicts of interest between us, on the one hand, and our commercial and technical managers, on the other hand. These conflicts may arise in connection with the chartering, purchase, sale and operations of the vessels in our fleet versus vessels managed by other companies affiliated with our commercial or technical managers. Our commercial and technical managers may give preferential treatment to vessels that are time chartered-in by related parties because our founder, Chairman and Chief Executive Officer and members of his family may receive greater economic benefits. In particular, as of March 23, 2012, our commercial and technical managers provide commercial and technical management services to approximately 44 and 7 vessels respectively, other than the vessels in our fleet. In addition, our commercial manager provides services to eight vessels that are operated by entities affiliated with Mr. Lauro, and such entities may acquire additional vessels that will compete with our vessels in the future. Such conflicts may have an adverse effect on our results of operations.

**Our Chief Executive Officer and President do not devote all of their time to our business, which may hinder our ability to operate successfully.**

Messrs. Lauro and Bugbee, our Chief Executive Officer and President, respectively, participate in business activities not associated with the Company. As a result, Messrs. Lauro and Bugbee may devote less time to the Company than if they were not engaged in other business activities and may owe fiduciary duties to the shareholders of both the Company as well as shareholders of other companies which they may be affiliated, including other Scorpio Group companies. This may create conflicts of interest in matters involving or affecting the Company and its customers and it is not certain that any of these conflicts of interest will be resolved in our favor. This could have a material adverse effect on our business, financial condition, results of operations and cash flows.

**Our commercial and technical managers are each privately held companies and there is little or no publicly available information about them.**

SCM is our commercial manager and SSM is our technical manager. SCM's and SSM's ability to render management services will depend in part on their own financial strength. Circumstances beyond our control could impair our commercial manager's or technical manager's financial strength, and because each is a privately held company, information about the financial strength of our commercial manager and technical manager is not available. As a result, we and our shareholders might have little advance warning of financial or other problems affecting our commercial manager or technical manager even though their financial or other problems could have a material adverse effect on us.

**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 negatively impact our results of operations and cash flows.**

We have entered into, and may enter in the future, various contracts, including charter agreements and credit facilities. 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. For example, the combination of a reduction of cash flow resulting from declines in world trade, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity financing may result in a significant reduction in the ability of our charterers to make charter payments to us. In addition, in depressed market conditions, our charterers and customers may no longer need a vessel that is currently under charter or contract or may be able to obtain a comparable vessel at lower rates. As a result, charterers and customers may seek to renegotiate the terms of their existing charter agreements 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.

**The failure of our charterers to meet their obligations under our charter agreements, on which we depend for our revenues, could cause us to suffer losses or otherwise adversely affect our business.**

As of the date of this annual report, we do not employ any vessels under a long-term time charter agreement but we may enter into such agreements in the future. The ability and willingness of each of our counterparties to perform their obligations under a time charter, spot voyage or other agreement 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 tanker shipping industry and the overall financial condition of the counterparties. Charterers are sensitive to the commodity markets and may be impacted by market forces affecting commodities such oil. In addition, in depressed market conditions, there have been reports of charterers renegotiating their charters or defaulting on their obligations under

charters. Our customers may fail to pay charterhire or attempt to renegotiate charter rates. Should a counterparty fail to honor its obligations under agreements with us, it may be difficult to secure substitute employment for such vessel, and any new charter arrangements we secure in the spot market or on time charters may be at lower rates given currently decreased tanker charter rate levels. When we employ a vessel in the spot charter market, we generally place such vessel in a tanker pool managed by our commercial manager that pertains to that vessel's size class. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows, as well as our ability to pay dividends, if any, in the future, and compliance with covenants in our credit facilities.

**Our insurance may not be adequate to cover our losses that may result from our operations due to the inherent operational risks of the tanker industry.**

We carry insurance to protect us against most of the accident-related risks involved in the conduct of our business, including marine hull and machinery insurance, protection and indemnity insurance, which include pollution risks, crew insurance and war risk insurance. However, we may not be adequately insured to cover losses from our operational risks, which could have a material adverse effect on us. Additionally, our insurers may refuse to pay particular claims and our insurance may be voidable by the insurers if we take, or fail to take, certain action, such as failing to maintain certification of our vessels with applicable maritime regulatory organizations. Any significant uninsured or under-insured loss or liability could have a material adverse effect on our business, results of operations, cash flows and financial condition and our available cash. In addition, we may not be able to obtain adequate insurance coverage at reasonable rates in the future during adverse insurance market conditions.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for us to obtain due to increased premiums or reduced or restricted coverage for losses caused by terrorist acts generally.

**Because we obtain some of our insurance through protection and indemnity associations, which result in significant expenses to us, we may be required to make additional premium payments.**

We may be subject to increased premium payments, or calls, in amounts based on our claim records, the claim records of our managers, as well as the claim records of other members of the protection and indemnity associations through which we receive insurance coverage for tort liability, including pollution-related liability. In addition, our protection and indemnity associations may not have enough resources to cover claims made against them. Our payment of these calls could result in significant expense to us, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and available cash.

**RISKS RELATED TO OUR INDEBTEDNESS**

**Servicing our current or future indebtedness limits funds available for other purposes and if we cannot service our debt, we may lose our vessels.**

Borrowing under our credit facilities requires us to dedicate a part of our cash flow from operations to paying interest on our indebtedness. These payments limit funds available for working capital, capital expenditures and other purposes, including further equity or debt financing in the future. Amounts borrowed under our credit facilities bear interest at variable rates. Increases in prevailing rates could increase the amounts that we would have to pay to our lenders, even though the outstanding principal amount remains the same, and our net income and cash flows would decrease. We expect our earnings and cash flow to vary from year to year due to the cyclical nature of the tanker industry. If we do not generate or reserve enough cash flow from operations to satisfy our debt obligations, we may have to undertake alternative financing plans, such as:

- seeking to raise additional capital;
- refinancing or restructuring our debt;

- selling tankers; or
- reducing or delaying capital investments.

However, these alternative financing plans, if necessary, may not be sufficient to allow us to meet our debt obligations. If we are unable to meet our debt obligations or if some other default occurs under our credit facilities, our lenders could elect to declare that debt, together with accrued interest and fees, to be immediately due and payable and proceed against the collateral vessels securing that debt even though the majority of the proceeds used to purchase the collateral vessels did not come from our credit facilities.

**Our credit facilities contain restrictive covenants which limit the amount of cash that we may use for other corporate activities, which could negatively affect our growth and cause our financial performance to suffer.**

Our credit facilities impose operating and financial restrictions on us. These restrictions limit our ability, or the ability of our subsidiaries party thereto to:

- pay dividends and make capital expenditures if we do not repay amounts drawn under our credit facilities or if there is another default under our credit facilities;
- incur additional indebtedness, including the issuance of guarantees;
- create liens on our assets;
- change the flag, class or management of our vessels or terminate or materially amend the management agreement relating to each vessel;
- sell our vessels;
- merge or consolidate with, or transfer all or substantially all our assets to, another person; or
- enter into a new line of business.

Therefore, we will 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 may not be able to obtain our lenders' permission when needed. This may limit our ability to pay dividends to you if we determine to do so in the future, finance our future operations or capital requirements, make acquisitions or pursue business opportunities.

**If the recent volatility in LIBOR rates continues, it will affect the interest rate under our existing credit facilities or future credit facilities which could affect our profitability, earnings and cash flow.**

Amounts borrowed under our credit facilities are tied to LIBOR rates. LIBOR rates have recently been volatile, with the spread between those rates and prime lending rates widening significantly at times. These conditions are the result of the recent disruptions in the international credit markets. Because the interest rates borne by amounts that we may drawdown under our existing credit facilities or future credit facilities fluctuate with changes in the LIBOR rates, if this volatility were to continue, it would affect the amount of interest payable on amounts that we were to draw down

from our existing credit facilities or future credit facilities, which in turn, would have an adverse effect on our profitability, earnings and cash flow.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

We were incorporated in the Republic of the Marshall Islands pursuant to the Marshall Islands Business Corporations Act on July 1, 2009. Our principal executive offices are located at 9, Boulevard Charles III, Monaco 98000 and our telephone number at that location is +377-9798-5716. Our stock has traded on the New York Stock Exchange (NYSE) under the symbol "STNG" since our initial public offering in April 2010.

We provide seaborne transportation of crude oil and other petroleum products worldwide. We began our operations in October 2009, when Liberty, then a wholly-owned subsidiary of Simon Financial Limited, or Simon, a company owned and controlled by the Lolli-Ghetti family, transferred to us three vessel owning and operating subsidiary companies. On April 6, 2010, we completed our initial public offering for 12,500,000 shares of common stock at a public offering price $13.00 per share and commenced trading on the NYSE. Since that time we have expanded our fleet and as of the date of this report we own and operate 11 tankers (consisting of four LR1 tankers, three handymax tankers, two MR tankers, one LR2 tanker, and one post-panamax tanker), 12 chartered-in tankers (six Handymax tankers, five MR tankers and one LR2 tanker)] and have entered into contracts for the construction of seven newbuilding MR tankers, which are scheduled to be delivered to us between July 2012 and April 2013. We intend to continue to grow our fleet through timely and selective acquisitions of modern, high-quality tankers. We expect to focus future vessel acquisitions primarily on medium-sized product or coated tankers. However, we will also consider purchasing other classes of tankers if we determine that those vessels would, in our view, present favorable investment opportunities.

**Fleet development**

*Owned vessels*

On May 10, 2011, we took delivery of two MR product tankers, the *STI Coral* and *STI Diamond*, that we previously agreed to acquire for an aggregate purchase price of $70.0 million. We financed the purchase price through a combination of bank debt, a portion of the proceeds of our underwritten public offering in May 2011, and cash from operations. The ships were built in 2008 at the STX shipyard in Korea and were charter free at delivery.

In February 2012, we entered into agreements to sell three of our Handymax vessels: the *STI Conqueror* for $21.0 million, the *STI Gladiator* for $16.2 million, and the *STI Matador* for $16.2 million. The sale of the *STI Conqueror* closed in March 2012 and the sales of the *STI Gladiator* and *STI Matador* are expected to close in April 2012. We have received deposits of 10% of the purchase price on the sales of the *STI Gladiator* and *STI Matador* as of the date of this report. In connection with these sales, the availability of the Company's 2010 Revolving Credit Facility will decrease by approximately $31.0 million.

*Time chartered-in vessels*

On January 26, 2011, we took delivery of the *Kraslava*, a 2007 built Handymax ice-class 1B product tanker on a time charter-in arrangement for one year at a rate of $12,070 per day. In December 2011, this agreement was extended one month to February 26, 2012 and additional option periods were negotiated. The first option period on this vessel was exercised, extending the expiry date five months from February 26, 2012 to July 26, 2012. Subsequent to that, we have two consecutive optional periods each for three months at the current base rate of $12,070 per day. This vessel is currently operating in the Scorpio Handymax Tanker Pool.

On February 6, 2011 we took delivery of the *Histria Azure*, a 2007 built Handymax product tanker, on a time charter-in arrangement for one year at a rate of $12,250 per day. This vessel is currently off-hire and is expected to be re-delivered to us in April 2012. During 2011, this vessel operated in the Scorpio Handymax Tanker Pool from delivery through September 13, 2011 and has been off-hire through the date of this annual report. We have extended the term of the charter for this vessel for one year after the vessel is re-delivered to us at $12,000 per day. Pursuant to this charter agreement, we have an option to extend the term of the charter for four additional months at $12,250 per day and a second option to further extend the term of the charter agreement for an additional year at $13,650 per day.

On March 1, 2011, we took delivery of the *Krisjanis Valdemars*, a 2007 built Handymax ice-class 1B product tanker on a time charter-in arrangement for 10 months at a rate of $12,000 per day. The agreement also includes a profit and loss sharing provision whereby 50% of all profits and losses (the difference between the vessel's pool earnings and the

charter hire expense) is shared with the owner of the vessel. In December 2011, we negotiated a two month extension and added three option periods to this agreement. The extension period expired on February 14, 2012 and the first option period was exercised, extending the expiry date four months to June 14, 2012. Subsequent to that, we have two consecutive optional periods of three and three months, respectively, at the base rate of $12,000 per day.

On May 27, 2011, we took delivery of the *Kazdanga*, a 2007 built Handymax ice class 1B product tanker for one year at a rate of $12,345 per day with an option for us to extend the charter for an additional year at a rate of $13,335 per day. This vessel is currently operating in the Scorpio Handymax Tanker Pool.

In July 2011, we took delivery of two time chartered-in Handymax product tankers. The *Histria Perla*, a 2005 built Handymax product tanker and was delivered on July 15, 2011 and the *Histria Coral*, a 2006 built Handymax product tanker was delivered on July 17, 2011. Each vessel has been chartered-in for two years at a rate of $12,750 and $13,250 per day for the first and second years, respectively. Each charter agreement includes an option for us to extend the charter for an additional year at a rate of $14,500 per day.

On October 24, 2011, we took delivery of a 2006 built LR2 product tanker , the *Khawr Aladid*. The vessel was chartered-in for six months at $12,000 per day, and we currently have an option to extend the charter for a period of six months from delivery at $13,000 per day.

In February 2012, we agreed to charter-in a 2009 built MR product tanker, the *Pacific Duchess*. The vessel will be chartered-in for one year at $13,800 per day and was delivered on March 17, 2012. The agreement includes an option for us to extend the charter for an additional year at $14,800 per day.

In February 2012, we agreed to charter-in a 2007 built MR product tanker, the *Targale*. The vessel will be chartered in for two years at $14,500 per day and is expected to be delivered in May 2012. The agreement includes three consecutive options for us to extend the charter for up to three consecutive one year periods at $14,850 per day, $15,200 per day and $16,200 per day, respectively.

In March 2012, we agreed to charter-in a 2010 built MR product tanker, the *Pacific Marchioness*. The vessel will be chartered-in for one year at $13,900 per day and is expected to be delivered in April 2012. The agreement includes an option for us to extend the charter for an additional year at $14,900 per day.

In March 2012, we agreed to charter-in a 2007 built MR product tanker, the *STX Ace6*. The vessel will be chartered-in for two years at $14,150 per day and is expected to be delivered in May 2012. The agreement includes an option for us to extend the charter for an additional year at $15,150 per day.

In March 2012, we agreed to charter-in a 2012 built MR product tanker, the *Freja Lupus*. The vessel will be chartered-in for two years at $14,760 per day and is expected to be delivered in April, 2012. The agreement includes an option for us to extend the charter for an additional year at $16,000 per day.

*Newbuilding vessels*

On June 6, 2011, we announced that we entered into contracts with Hyundai to construct five 52,000 DWT product tankers for approximately $37.4 million each. These vessels will be the first to be delivered from the Hyundai yard with new propulsion technology including the ‘B’ type ultra-long stroke electronically controlled main engine. These enhancements are expected to reduce the vessels’ consumption of fuel by approximately 10% compared to existing designs. The vessels are scheduled to be delivered to us between July 2012 and October 2012.

On December 21, 2011, we entered into an agreement with Hyundai to construct a sixth MR product tanker, or the sixth newbuilding, with the same specifications described above, for approximately $36.4 million. This vessel is scheduled to be delivered to us in January 2013.

In February 2012, we entered into an agreement with Hyundai to construct a seventh MR product tanker, or the seventh newbuilding, with the same specifications described above for $36.0 million. The seventh newbuilding is scheduled to be delivered in April 2013.

We plan to finance our seven Newbuilding Vessels through a combination of cash on hand, bank debt, and cash from operations.

**B. Business Overview**

We are engaged in seaborne transportation of crude oil and refined petroleum products in the international shipping markets. Our fleet as of the date of this annual report consisted of 11 wholly owned tankers (four LR1 tankers, three Handymax tankers, two MR tankers, one LR2 tanker and one post-Panamax tanker), 12 time chartered-in tankers (six Handymax tankers, five MR tankers and one LR2 tanker) and we have contracted for seven newbuilding MRs, which are scheduled to be delivered to us between July 2012 and April 2013. Below is our fleet list as of the date of this annual report:

| | Vessel Name | Year Built | DWT | Ice Class | Employment | Vessel type | Time Charter Info Daily Base Rate | Expiry (1) | |
|---|---|---|---|---|---|---|---|---|---|
| | Owned vessels | | | | | | | | |
| 1 | STI Highlander | 2007 | 37,145 | 1A | SHTP (1) | Handymax | | | |
| 2 | STI Gladiator | 2003 | 40,083 | - | SHTP (1) * | Handymax | | | |
| 3 | STI Matador | 2003 | 40,096 | - | SHTP (1) * | Handymax | | | |
| 4 | STI Coral | 2008 | 49,900 | - | Spot | MR | | | |
| 5 | STI Diamond | 2008 | 49,900 | - | Spot | MR | | | |
| 6 | Noemi | 2004 | 72,515 | - | SPTP (2) | LR1 | | | |
| 7 | Senatore | 2004 | 72,514 | - | SPTP (2) | LR1 | | | |
| 8 | STI Harmony | 2007 | 73,919 | 1A | SPTP (2) | LR1 | | | |
| 9 | STI Heritage | 2008 | 73,919 | 1A | SPTP (2) | LR1 | | | |
| 10 | Venice | 2001 | 81,408 | 1C | SPTP (2) | Post-Panamax | | | |
| 11 | STI Spirit | 2008 | 113,100 | - | SLR2P (3) | LR2 | | | |
| | Total owned DWT | | 704,499 | | | | | | |
| | Time Chartered-In vessels | | | | | | | | |
| 12 | Kraslava | 2007 | 37,258 | 1B | SHTP (1) | Handymax | $12,070 | 26-Jul-12 | (4) |
| 13 | Krisjanis Valdemars | 2007 | 37,266 | 1B | SHTP (1) | Handymax | $12,000 | 14-Jun-12 | (5) |
| 14 | Kazdanga | 2007 | 37,312 | 1B | SHTP (1) | Handymax | $12,345 | 27-May-12 | (6) |
| 15 | Histria Azure | 2007 | 40,394 | - | SHTP (1) | Handymax | $12,000 | 01-Apr-13 | (7) |
| 16 | Histria Perla | 2005 | 40,471 | - | SHTP (1) | Handymax | $13,000 | 15-Jul-13 | (8) |
| 17 | Histria Coral | 2006 | 40,426 | - | SHTP (1) | Handymax | $13,000 | 17-Jul-13 | (8) |
| 18 | Khawr Aladid | 2006 | 106,003 | - | SLR2P (3) | LR2 | $12,000 | 23-Apr-12 | (9) |
| 19 | Pacific Duchess | 2009 | 46,697 | - | Spot | MR | $13,800 | 17-Mar-13 | (10) |
| 20 | Targale | 2007 | 49,999 | - | Spot | MR | $14,500 | 10-May-14 | (11) |
| 21 | Pacific Marchioness | 2010 | 46,697 | - | Spot | MR | $13,900 | 15-Apr-13 | (12) |
| 22 | STX Ace 6 | 2007 | 46,161 | - | Spot | MR | $14,150 | 01-May-14 | (13) |
| 23 | Freja Lupus | 2012 | 50,385 | - | Spot | MR | $14,760 | 25-Apr-14 | (14) |
| | Total time chartered-in DWT | | 579,069 | | | | | | |
| | Newbuildings currently under construction | | | | | | | | |
| 24 | Hull 2332 | | 52,000 | (15) | | MR | | | |
| 25 | Hull 2333 | | 52,000 | (15) | | MR | | | |
| 26 | Hull 2334 | | 52,000 | (15) | | MR | | | |
| 27 | Hull 2335 | | 52,000 | (15) | | MR | | | |
| 28 | Hull 2336 | | 52,000 | (15) | | MR | | | |
| 29 | Hull 2361 | | 52,000 | (15) | | MR | | | |
| 30 | Hull 2362 | | 52,000 | (15) | | MR | | | |
| | Total newbuilding DWT | | 364,000 | | | | | | |
| | Total DWT | | 1,647,568 | | | | | | |

* We have agreed to sell these vessels to unrelated third parties and expect to deliver them to their buyers in April 2012.

(1) This vessel operates in the Scorpio Handymax Tanker Pool (SHTP). SHTP is operated by Scorpio Commercial Management (SCM). SHTP and SCM are controlled by the Lolli-Ghetti family of which our founder, Chairman and Chief Executive Officer, Mr. Emanuele Lauro, is a member.

(2) This vessel operates in Scorpio Panamax Tanker Pool (SPTP). SPTP is operated by SCM and is controlled by the Lolli-Ghetti family.

(3) This vessel operates in the Scorpio LR2 Pool (SLR2P). SLR2P is operated by SCM and is controlled by the Lolli-Ghetti family.

(4) This agreement has two consecutive optional periods for the Company to extend the charter of three and three months, respectively, at the current base rate of $12,070 per day.

(5) This agreement has two consecutive optional periods for the Company to extend the charter three and three months, respectively, at the current base rate of $12,000 per day. The agreement also contains a 50% profit and loss sharing provision with the vessel owner whereby we split all of the vessel's profits and losses above $12,000/day with the vessel owner.

(6) The agreement contains an option for the Company to extend the charter for an additional year at a rate of $13,335 per day.

(7) This vessel is currently off-hire and is expected to be re-delivered to the Company in March 2012 on a one year time charter agreement at $12,000 per day. The agreement contains an option for the Company to extend the term of the charter for four additional months at $12,250 per day and a second option to further extend the term of the charter agreement for an additional year at $13,650 per day.

(8) Represents the average rate for the two year duration of the agreement. The rate for the first year is $12,750 per day and the rate for the second year is $13,250 per day. The agreement contains an option for the Company to extend the charter for an additional year at a rate of $14,500 per day.

(9) The agreement contains an option for the Company to extend for six months at $13,000 per day.

(10) The agreement contains an option for the Company to extend for an additional year at $14,800 per day. This vessel was delivered on March 17, 2012.

(11) The agreement includes three consecutive options to extend the charter for up to three consecutive one year periods at $14,850 per day, $15,200 per day and $16,200 per day, respectively. This vessel is expected to be delivered on May 10, 2012.

(12) The agreement contains an option for the Company to extend the charter for an additional year at a rate of $14,900 per day.

(13) The agreement contains an option for the Company to extend the charter for an additional year at a rate of $15,150 per day.

(14) The agreement contains an option for the Company to extend the charter for an additional year at a rate of $16,000 per day.

(15) These seven Newbuilding Vessel are being constructed at Hyundai. Of our Newbuilding Vessels, the first five are expected to be delivered between July and September 2012, the sixth in January 2013 and the seventh in April 2013.

*Operations*

Generally, we operate our vessels in commercial pools (such as the Scorpio LR2 Pool, Scorpio Panamax Tanker Pool, and Scorpio Handymax Tanker Pool), in the spot market or on time charters. As of the date of this annual report:

- *STI Coral, STI Diamond and Pacific Duchess*, were operating in the spot market.
- *STI Spirit* and *Khawr Aladid were* operating in the Scorpio LR2 Pool.
- *Senatore*, *Venice*, *STI Harmony*, *STI Heritage* and *Noemi* were operating in the Scorpio Panamax Tanker Pool.
- *STI Conqueror*, *STI Matador*, *STI Gladiator*, *STI Highlander*, *Krisjanis Valdemars*, *Kraslava*, *Kazdanga*, *Histria Perla*, *Histria Coral* and *Histria Azure were* operating in the Scorpio Handymax Tanker Pool.

*Time Charters*

Time charters give us a fixed and stable cash flow for a known period of time. Time charters also mitigate in part the seasonality of the spot market business, which is generally weaker in the second and third quarters of the year. In the future, we may opportunistically look to enter our vessels into time charter contracts. We may also enter into time charter contracts with profit sharing agreements, which enable us to benefit if the spot market increases.

*Spot Market*

A spot market voyage charter is generally a contract to carry a specific cargo from a load port to a discharge port for an agreed freight per ton of cargo or a specified total amount. Under spot market voyage charters, we pay voyage expenses such as port, canal and bunker costs. Spot charter rates are volatile and fluctuate on a seasonal and year-to-year basis. Fluctuations derive from imbalances in the availability of cargoes for shipment and the number of vessels available at any given time to transport these cargoes. Vessels operating in the spot market generate revenue that is less predictable, but may enable us to capture increased profit margins during periods of improvements in tanker rates.

*Commercial Pools*

To increase vessel utilization and thereby revenues, we participate in commercial pools with other shipowners of similar modern, well-maintained vessels. By operating a large number of vessels as an integrated transportation system, commercial pools offer customers greater flexibility and a higher level of service while achieving scheduling efficiencies. Pools employ experienced commercial managers and operators who have close working relationships with customers and brokers, while technical management is performed by each shipowner. Pools negotiate charters with customers primarily in the spot market. The size and scope of these pools enable them to enhance utilization rates for pool vessels by securing backhaul voyages and contracts of affreightment, or COAs, thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market.

*Commercial Management Agreement*

Our vessels are commercially managed by Scorpio Commercial Management S.A.M., or SCM. SCM is a related party and SCM's services include securing employment, in the spot market and on time charters, for the Company's vessels. SCM also manages the Scorpio Group Pools. When our vessels operate in one of the commercial pools managed by SCM, we pay SCM an agent fee of $250 per vessel per day plus 1.25% commission per charter fixture for Panamax, LR1 and LR2 vessels and $300 per vessel per day for Handymax vessels. When our vessels are operating outside of such commercial pools, we pay SCM a fee of $250 per vessel per day plus a 1.25% commission of gross revenues per charter fixture for Panamax, LR1 and LR2 vessels and $300 per vessel per day for Handymax and MR vessels, which are the same fees SCM charges third parties.

We have signed commercial management agreements for each of our vessels for a period of three years, which may be terminated upon a 16 month notice. We expect to sign similar agreements for additional vessels that we may acquire in the future.

*Technical Management Agreement*

Our vessels are technically managed by Scorpio Ship Management S.A.M., or SSM, a related party. SSM is owned the Lolli-Ghetti family. SSM facilitates vessel support such as crew, provisions, deck and engine stores, insurance, maintenance and repairs, and other services as necessary to operate the Company's vessels such as drydocks and vetting/inspection under a technical management agreement. We currently pay SSM $548 per vessel per day to provide technical management services for each of our vessels. This fee is the same charged to third parties by SSM, and therefore the Company believes it represents a market rate for such services.

We signed the technical management agreements with SSM in December 2009 for a period of three years, which may be terminated upon a 16 month notice. We have also signed similar agreements for the vessels that we acquired and we expect to sign similar agreements for additional vessels that may acquire in the future.

*Administrative Services Agreement*

We have an administrative services agreement with our Administrator that provides accounting, legal compliance, financial, information technology services, and the provision of administrative staff and office space. Liberty, a company affiliated with us, acted as our Administrator until March 13, 2012 when the administrative services agreement was assigned to Scorpio Services Holding Limited, or SSH, a company owned the Lolli-Ghetti family. The effective date of the novation was November 9, 2009, the date that we first entered into the agreement with Liberty. We reimburse our current Administrator for the reasonable direct or indirect expenses it incurs in providing us with the administrative services described above. Our Administrator also arranges vessel sales and purchases for us. Our Administrator services may be sub-contracted to other entities within the Scorpio Group.

We pay our Administrator a fee for arranging vessel purchases and sales for us, equal to 1% of the gross purchase or sale price, payable upon the consummation of any such purchase or sale. In 2011, we paid our Administrator $0.7 million in fees relating to vessel acquisitions. We believe this 1% fee on purchases and sales is customary in the tanker industry.

Further, pursuant to our administrative services agreement, our Administrator, has agreed that it will not directly own product or crude tankers ranging in size from 35,000 dwt to 200,000 dwt.

Our administrative services agreement, whose effective commencement began in December 2009, has a duration of three years.

**The International Oil Tanker Shipping Industry**

*All the information and data presented in this section, including the analysis of the various sectors of the oil tanker shipping industry has been provided by Drewry. Drewry has advised that the statistical and graphical information contained herein is drawn from its database and other sources. In connection therewith, Drewry has advised that: (a) certain information in Drewry's database is derived from estimates or subjective judgments; (b) the information in the databases of other maritime data collection agencies may differ from the information in Drewry's database; (c) while Drewry has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures.*

**General**

International seaborne oil and petroleum products transportation services are mainly provided by two types of operators: major oil company captive fleets (both private and state-owned) and independent shipowner fleets. Both types of operators transport oil under short-term contracts (including single-voyage “spot charters”) and long-term time charters with oil companies, oil traders, large oil consumers, petroleum product producers and government agencies. The oil companies own, or control through long-term time charters, approximately one third of the current world tanker capacity, while independent companies own or control the balance of the fleet. The oil companies use their fleets not only to transport their own oil, but also to transport oil for third-party charterers in direct competition with independent owners and operators in the tanker charter market.

The current international financial crisis is affecting the international tanker market. It is expected that the global fleet will increase during 2012 because of the present order book. However, some shipping companies are now facing challenges in financing their large newbuilding programs, as shipping banks are more restrictive than before in granting credit. The current financial upheaval may delay deliveries of newbuildings and may also lead to the cancellation of newbuilding orders, and there have been reports of cancellations of tanker newbuildings from certain yards. Shipping companies with high debt or other financial commitments may be unable to continue servicing their debt, which could lead to foreclosure on vessels.

The oil transportation industry has historically been subject to regulation by national authorities and through international conventions. Over recent years, however, an environmental protection regime has evolved which has a significant impact on the operations of participants in the industry in the form of increasingly more stringent inspection requirements, closer monitoring of pollution-related events, and generally higher costs and potential liabilities for the owners and operators of tankers.

In order to benefit from economies of scale, tanker charterers will typically charter the largest possible vessel to transport oil or products, consistent with port and canal dimensional restrictions and optimal cargo lot sizes. A tanker's carrying capacity is measured in deadweight tons, or dwt, which is the amount of crude oil measured in metric tons that the vessel is capable of loading. The oil tanker fleet is generally divided into the following five major types of vessels, based on vessel carrying capacity: (i) Ultra Large Crude Carrier, or ULCC, with a size range of approximately 320,000 to 450,000 dwt; (ii) Very Large Crude Carrier, or VLCC, with a size range of approximately 200,000 to 320,000 dwt; (iii) Suezmax-size range of approximately 120,000 to 200,000 dwt; (iv) Aframax-size range of approximately 80,000 to 120,000 dwt; (v) Panamax-size range of approximately 60,000 to 70,000 dwt; and (vi) small tankers of less than approximately 60,000 dwt. ULCCs and VLCCs typically transport crude oil in long-haul trades, such as from the Arabian Gulf to Rotterdam via the Cape of Good Hope. Suezmax tankers also engage in long-haul crude oil trades as well as in medium-haul crude oil trades, such as from West Africa to the East Coast of the United States. Aframax-size vessels generally engage in both medium-and short-haul trades of less than 1,500 miles and carry crude oil or petroleum products. Smaller tankers mostly transport petroleum products in short-haul to medium-haul trades.

**Oil Tanker Demand**

Demand for crude oil and refined petroleum products is affected by a number of factors including general economic conditions (including increases and decreases in industrial production), oil prices, environmental concerns, weather conditions, and competition from alternative energy sources.

As the following figures indicate, the world economy grew at a fairly consistent rate in the period from 2000 to 2008, but growth came to an abrupt halt in 2009 when the world went into a global recession. The downturn was short-lived and the most recent data suggest that the world economy returned to positive growth in 2010, with China and India being the main engines of growth.

**World Oil Consumption: 1990 - 2011**

*(Million Barrels Per Day)*

*(1) Provisional*

*Source: Drewry Maritime Research*

World oil consumption has generally experienced sustained growth since 2000 with the exception of 2009 due to the downturn in the global economy. The provisional data for 2011 suggests that world oil demand rebounded strongly to reach 89.2 million barrels per day. Since 2000 it has grown at a compound annual growth rate (CAGR) of approximately 1.45%.

However, regionally, oil consumption is either static or declining in most of the developed world, but is increasing in most of the developing world. In recent years, Asia, in particular China has been the main generator of additional demand for oil, with this demand largely supplied from traditional sources such as the Middle East. In the period from 2000 to 2011, Chinese oil consumption grew by a CAGR of 6.4% to reach 9.5 million barrels per day.

Oil consumption on a per capita basis is still low in certain countries, such as China and India, when compared with the United States and Western Europe.

Seasonal trends also affect world oil consumption and consequently oil tanker demand. While trends in consumption do vary by season, peaks in tanker demand quite often precede seasonal consumption peaks, as refiners and suppliers anticipate consumer demand. Seasonal peaks in oil demand can broadly be classified into two main categories: increased demand prior to Northern Hemisphere winters as heating oil consumption increases and increased demand for gasoline prior to the summer driving season in the United States.

Production trends have naturally followed the underlying pattern in oil consumption, allowing for the fact that changes in the level of oil inventories also play a part in determining production levels.

Production and exports from the Middle East (largely OPEC) have historically had a significant impact on the demand for tanker capacity, and, consequently, on tanker charter hire rates, due to the relatively long distances between this supply source and typical destination ports. Oil exports from short-haul regions, such as Latin America and the North Sea, are significantly closer to ports used by the primary consumers of such exports, which results in shorter average voyage length as compared to oil exports from the Middle East. Therefore, production in short-haul regions historically has had less of an impact on the demand for larger vessels while increasing the demand for vessels in the Handy, Panamax and Aframax market segments.

**Oil Refinery Capacity**

Oil refineries also vary greatly in the quantity, variety and specification of products that they produce, and it is common for tankers to take products into and out of the same refinery. This global multi-directional trade pattern enables owners and operators of product tankers to engage in charters of triangulation, and thereby maximize the revenue.

Changes in refinery throughput are to a certain extent driven by changes in the location of capacity and capacity increases are taking place mostly in the developing world, especially in Asia. In turn this is leading to changes in voyage patterns and longer voyages.

In response to growing domestic demand, Chinese refinery throughput has grown at the fastest rate of any global region in the last decade, with the Middle East and other emerging economies following behind. By contrast, refinery throughput in North America has actually declined in the last decade.

The shift in global refinery capacity from the developed to the developing world is likely to continue as refinery development plans are heavily focused on areas such as Asia and the Middle East, with relatively little capacity additions planned for North America and Europe.

**World Oil Trades**

World oil trades are naturally the result of geographical imbalances between areas of oil consumption and production, although it is important to recognize that in sectors such refined petroleum products arbitrage can have an impact on trade flows.

The volume of crude oil moved by sea each year also reflects the underlying changes in world oil consumption and production. Seaborne trade in crude oil in 2011 is provisionally estimated at 1.93 billion tons, while refined petroleum products movements are provisionally estimated at 895 million tons.

Demand for oil tankers is primarily determined by the volume of crude oil and refined petroleum products transported and the distances over which they are transported. Tanker demand is generally expressed in ton miles and is measured as the product of the volume of oil carried (measured in metric tons) multiplied by the distance over which it is carried (measured in miles).

The transportation of crude oil is typically unidirectional, in that most oil is transported from a few areas of production to many regions of consumption, where it is refined into petroleum products. Conversely, the transportation of refined petroleum products and associated cargoes is multi-directional, in that there are several areas of both production and consumption.

The growth in the volume of oil moved by sea since 2000 had been quite modest, but the absolute volume of trade hides the fact that geographical changes in the pattern or trade have had a positive impact on tanker demand when expressed in terms of ton miles. In the period from 2000 to 2011, ton mile demand in the tanker sector grew at a CAGR of 2.7%, whereas the overall increase in trade over the same period was equivalent to a CAGR of 2.2%.

As a result of changes in the pattern of trade the average haul length of refined product trades has risen from a recent market low of 2,631 miles (loaded voyage only) in 2000 to 3,940 miles in 2011, equivalent to a CAGR of 2.3%.

**Oil Tanker Supply**

The world oil tanker fleet is generally divided into five major types of vessel classifications, based on vessel carrying capacity. Additionally, the tanker fleet is divided between crude tankers that carry crude oil or residual fuel oil (“dirty products”), and product tankers that carry refined petroleum products (“clean products”) such as gasoline, jet fuel, kerosene, naphtha and gas oil.

While product tankers can carry dirty products, they generally do not switch between clean and dirty cargoes, as a vessel’s tank must be cleaned prior to loading a different cargo type. Product tankers do not form a distinct vessel classification, but are identified on the basis of various factors, including technical and trading histories.

A number of tankers also have the capability to carry chemicals as well as refined petroleum products. These ships are sometimes referred to as product/chemical tankers and they move between the carriage of chemicals or refined petroleum products depending on market conditions and employment opportunities. The following analysis focuses on

straight product tankers and the ships with product/chemical capability are covered in the section dealing with chemical tankers which follows.

The main fleet categories are Very Large Crude Carrier (VLCC), Suezmax, Aframax, Panamax and Handy oil tankers.

| Category | Size Range - Dwt |
|---|---|
| Handy | 10-49,999 |
| Panamax | 50-79,999 |
| Aframax | 80-119,999 |
| Suezmax | 120-199,999 |
| VLCC | 200,000 + |

The supply of tankers is measured in deadweight tons, or dwt. The supply of tanker capacity is determined by the age and size of the existing global fleet, the number of vessels on order and the number of ships removed from the fleet by scrapping and international regulations. Other factors which can affect the short-term supply of tankers include the number of combined carriers (vessels capable of trading wet and dry cargoes) trading in the oil market and the number of tankers in storage, dry-docked, awaiting repairs or otherwise not available or out of commission (collectively, "lay-up" or total inactivity).

The oil tanker fleet at the end of February 2012 consisted of 3,165 vessels with combined capacity of 402.6 million dwt.

**Oil Tanker Fleet – February 29, 2012**

| Deadweight Tons (dwt) | Number of Vessels | % of Fleet | Capacity (million dwt) | % of Fleet |
|---|---|---|---|---|
| 10-49,999 | 780 | 27.8 | 27.3 | 6.8 |
| 50-79,999 | 449 | 31.3 | 31.5 | 7.9 |
| 80-119,999 | 906 | 96.5 | 96 | 24.1 |
| 120-199,999 | 444 | 68.5 | 68.6 | 17.2 |
| 200-320,000 | 554 | 168.0 | 165.8 | 41.6 |
| 320,000+ | 32 | 10.5 | 9.5 | 2.4 |
| | **3,165** | **402.6** | **398.7** | **100.0** |

*Source: Drewry Maritime Research*

Between the end of 2000 and the end of 2011 the size of the total tanker fleet grew by close to 50% with increases in fleet size taking place across all sectors, with the exception of the small ship category.

**The Product Tanker Fleet**

As of February 29, 2012, the product tanker fleet comprised 1,234 ships of 69.4 million dwt.

**World Product(1) Tanker Fleet 29, February 2012**

| Size Category | Size Range (Deadweight Tons) | Number of Vessels | % of Fleet | Total Capacity (Million Dwt ) | % of Fleet (Dwt) |
|---|---|---|---|---|---|
| LR2 | >80,000 | 183 | 14.8% | 20.0 | 28.8% |
| LR1 | 50,000-79,999 | 330 | 26.7% | 23.1 | 33.3% |
| MR2 | 25,000-49,999 | 565 | 45.8% | 24.0 | 34.6% |
| MR1 | 10,000-24,999 | 156 | 12.6% | 2.3 | 3.3% |
| **Total** | | **1,234** | **100.0%** | **69.4** | **100.0%** |

*(1) Excludes chemical tankers*

*Source: Drewry Maritime Research*

Over the years, the supply of the smallest product tanker category (10,000-29,999 dwt) fleet has declined in favour of the larger ships that are more suited to the long-haul routes.

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**Oil Tanker Orderbook**

As of February 29, 2012, the tanker orderbook amounted to 485 tankers of 74.8 million dwt, equivalent to 18.6% of the current fleet. At its peak in 2008 the orderbook to existing fleet ratio was just over 40% and the fact that it has fallen to under 20% reflects the fact that deliveries from the orderbook have more than outpaced new orders being placed. The current total tanker orderbook (crude and products) and the schedule of deliveries are shown below.

**The Total Tanker Fleet & Orderbook: February 29, 2012**

| *Size* | Fleet | | 2012 | | 2013 | | 2014 | | 2015 | | Total | | % of |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *No.* | *Dwt* | *No.* | *Dwt* | *No.* | *Dwt* | *No.* | *Dwt* | *No.* | *Dwt* | *No.* | *Dwt* | **Fleet** |
| 10-50,000 | 780 | 27,836 | 41 | 1,606 | 13 | 533 | 2 | 75 | 0 | 0 | **56** | **2,214** | 8.0 % |
| 50-80,000 | 449 | 31,280 | 40 | 2,522 | 50 | 2,878 | 8 | 448 | 0 | 0 | **98** | **5,848** | 18.7 % |
| 80-120,000 | 906 | 96,489 | 55 | 6,074 | 23 | 2,495 | 9 | 998 | 0 | 0 | **87** | **9,566** | 9.9 % |
| 120-200,000 | 444 | 68,458 | 65 | 10,172 | 48 | 7,355 | 11 | 1,614 | 0 | 0 | **124** | **19,141** | 28.0 % |
| 200-320,000 | 554 | 168,040 | 33 | 10,364 | 16 | 4,997 | 8 | 2,506 | 0 | 0 | **57** | **17,867** | 10.6 % |
| 320,000+ | 32 | 10,506 | 28 | 8,960 | 29 | 9,280 | 6 | 1,920 | 0 | 0 | **63** | **20,160** | 191.9 % |
| **Total** | **3,165** | **402,609** | **262** | **39,697** | **179** | **27,539** | **44** | **7,561** | **0** | **0** | **485** | **74,797** | **18.6 %** |

*Source: Drewry Maritime Research*

**Product Tanker Orderbook**

As of February 29, 2012, the product tanker orderbook amounted to 165 ships of 10.3 million dwt, equivalent to 14.8% of the current fleet.

**World Product Tanker Orderbook, February 29, 2012**

| **Size Category** | **Deadweight Tons** | **Number of Vessels** | **% of Ex Fleet (No)** | **Total Capacity (Million Dwt)** | **% Ex Fleet (Dwt)** |
|---|---|---|---|---|---|
| LR2 | >80,000 | 28 | 15.3% | 3.1 | 15.5% |
| LR1 | 50,000-79,999 | 87 | 26.4% | 5.1 | 22.1% |
| MR2 | 25,000-49,999 | 46 | 8.1% | 2.0 | 8.3% |
| MR1 | 10,000-24,999 | 4 | 2.6% | 0.1 | 4.3% |
| Total | | 165 | 13.4% | 10.3 | 14.8% |

*Source: Drewry Maritime Research*

**World Product Tanker Orderbook Delivery Schedule, February 29, 2012**

| **Size** | **2012** | | **2013** | | **2014** | | **2015+** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **('000 dwt)** | **No.** | **'000 Dwt** | **No.** | **'0000 Dwt** | **No.** | **'000 Dwt** | **No.** | **'000 Dwt** | **No.** | **'000 Dwt** |
| 10-25 | 4 | 64 | | 0 | | 0 | | 0 | **4** | **64** |
| 25-50 | 33 | 1,463 | 11 | 450 | 2 | 75 | | 0 | **46** | **1,988** |
| 50-80 | 36 | 2,220 | 42 | 2,370 | 8 | 448 | 1 | 50 | **87** | **5,088** |
| 80+ | 21 | 2,348 | 5 | 538 | 2 | 228 | | 0 | **28** | **3,114** |
| **Total** | **94** | **6,096** | **58** | **3,358** | **12** | **751** | **1** | **50** | **165** | **10,255** |

*Source: Drewry Maritime Research*

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**The Product Tanker Freight Market**

**Freight Rates**

Tanker charter hire rates and vessel values for all tankers are influenced by the supply and demand for tanker capacity. However, the product segment generally appears less volatile than other crude market segments because these vessels mainly transport refined petroleum products that are not subject to the same degree of volatility as the crude oil market. Also, in general terms time charter rates are less volatile than spot rates, because they reflect the fact that the vessel is fixed for a longer period of time. In the spot market, rates will reflect the immediate underlying conditions in vessel supply and demand and are thus prone to more volatility. The recent trends in rates in the time charter equivalent of spot rates and time charter rates are shown in the tables below.

Tanker charter hire rates and vessel values for all tankers are strongly influenced by the supply and demand for tanker capacity. Small changes in tanker utilization have historically led to relatively large fluctuations in tanker charter rates for VLCCs, more moderate price volatility in the Suezmax, Aframax and Panamax markets and less volatility in the Handy market compared to the tanker market as a whole.

From 2005 to 2007/2008 time charter rates for all sizes of oil tankers rose quite steeply, reflecting the fact that buoyant demand for oil and increased seaborne movements generated additional demand for tanker capacity. This led to a much tighter balance between vessel demand and supply and as consequence freight rates rose. However, as the world economy weakened in the second half of 2008 demand for oil also fell and this had a negative impact on tanker demand and freight rates. Rates therefore declined in 2009, only to stage a modest recovery in the early part of 2010, before falling once again in the summer months and then remaining weak in all of 2011 and into 2012, especially for the larger sizes of oil tanker.

**Oil Tanker One Year Time Charter Rates: 2000-February 2012**

*(US$/Day Period Averages)*

| **Size Category** | **Handysize** | **Handymax** | **Aframax** | **Suezmax** | **VLCC** |
|---|---|---|---|---|---|
| **DWT** | **30,000** | **45,000** | **90-95,000** | **150,000** | **280,000** |
| **2000** | 12,454 | 13,958 | 18,854 | 27,042 | 35,250 |
| **2001** | 15,583 | 17,563 | 23,125 | 30,500 | 37,958 |
| **2002** | 11,417 | 13,288 | 16,896 | 17,750 | 23,458 |
| **2003** | 13,267 | 14,846 | 19,146 | 26,104 | 33,604 |
| **2004** | 15,629 | 19,029 | 29,500 | 37,875 | 53,900 |
| **2005** | 18,854 | 25,271 | 35,021 | 42,292 | 60,125 |
| **2006** | 21,417 | 26,792 | 35,233 | 42,667 | 55,992 |
| **2007** | 22,000 | 24,500 | 33,143 | 43,042 | 53,333 |
| **2008** | 21,438 | 23,092 | 34,708 | 46,917 | 74,662 |
| **2009** | 13,675 | 14,850 | 19,663 | 27,825 | 38,533 |
| **2010** | 11,000 | 12,388 | 18,571 | 25,967 | 36,083 |
| **2011** | 12,300 | 13,600 | 15,200 | 19,700 | 24,600 |
| **Feb 2012** | 11,800 | 13,600 | 13,700 | 17,000 | 18,000 |

*Source: Drewry Maritime Research*

In general terms, time charter rates are less volatile than spot rates, because they reflect the fact that the vessel is fixed for a longer period of time. In the spot market, rates will reflect the immediate underlying conditions in vessel supply

and demand and are thus prone to more volatility.

**Environmental and Other Regulations**

Government laws and regulations significantly affect the ownership and operation of our vessels. We are subject to various international conventions, laws and regulations in force in the countries in which our vessels may operate or are registered. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modification and implementation costs.

A variety of government, quasi-governmental and private organizations subject our vessels to both scheduled and unscheduled inspections. These organizations include the local port authorities, national authorities, harbor masters or equivalent entities, classification societies, relevant flag state (country of registry) and charterers, particularly terminal operators and oil companies. Some of these entities require us to obtain permits, licenses, certificates and approvals for the operation of our vessels. Our failure to maintain necessary permits, licenses, certificates or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of the vessels in our fleet, or lead to the invalidation or reduction of our insurance coverage.

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for tankers that conform to stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with applicable local, national and international environmental laws and regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations; however, because such laws and regulations are frequently changed and may impose increasingly strict requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico, could result in additional legislation or regulation that could negatively affect our profitability.

**International Maritime Organization**

The International Maritime Organization, or the IMO, is the United Nations agency for maritime safety and the prevention of pollution by ships. The IMO has adopted several international conventions that regulate the international shipping industry, including but not limited to the International Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage, and the International Convention for the Prevention of Pollution from Ships of 1973, or the MARPOL Convention. The MARPOL Convention is broken into six Annexes, each of which establishes environmental standards relating to different sources of pollution: Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, adopted by the IMO in September of 1997, relates to air emissions.

*Air Emissions*

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits “deliberate emissions” of “ozone depleting substances,” defined to include certain halons and chlorofluorocarbons. “Deliberate emissions” are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship’s repair and maintenance. Emissions of “volatile organic compounds” from certain tankers, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. Annex VI also includes a global cap on the sulfur content of fuel oil (see below).

The IMO’s Maritime Environment Protection Committee, or MEPC, adopted amendments to Annex VI on October 10, 2008, which amendments were entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulphur contained in any fuel oil used on board ships. By January 1, 2012, the amended Annex VI requires that fuel oil contain no more than 3.50%

sulfur (from the current cap of 4.50%). By January 1, 2020, sulfur content must not exceed 0.50%, subject to a feasibility review to be completed no later than 2018.

Sulfur content standards are even stricter within certain "Emission Control Areas" ("ECAs"). By July 1, 2010, ships operating within an ECA may not use fuel with sulfur content in excess of 1.0% (from 1.50%), which is further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea and the North Sea have been so designated. Effective August 1, 2012, certain coastal areas of North America will also be designated ECAs, as will (effective January 1, 2014), the United States Caribbean Sea. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. The U.S. Environmental Protection Agency promulgated equivalent (and in some senses stricter) emissions standards in late 2009. As a result of these designations or similar future designations, we may be required to incur additional operating or other costs.

*Safety Management System Requirements*

The IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or LL, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL standards.

Our operations are also subject to environmental standards and requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO under Chapter IX of SOLAS. The ISM Code requires the owner of a vessel, or any person who has taken responsibility for operation of a vessel, to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We rely upon the safety management system that has been developed for our vessels for compliance with the ISM Code.

The ISM Code requires that vessel operators also obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. We have obtained documents of compliance for its offices and safety management certificates for all of our vessels for which the certificates are required by the ISM Code. These documents of compliance and safety management certificates are renewed as required.

Noncompliance with the ISM Code and other IMO regulations may subject the shipowner or bareboat charterer to increased liability, may lead to decreases in, or invalidation of, available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports.

*Pollution Control and Liability Requirements*

IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatory nations to such conventions. For example, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended by different Protocol in 1976, 1984, and 1992, and amended in 2000, or the CLC. Under the CLC and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain exceptions. The 1992 Protocol changed certain limits on liability, expressed using the International Monetary Fund currency unit of Special Drawing Rights. The right to limit liability is forfeited under the CLC where the spill is caused by the shipowner's actual fault and under the 1992 Protocol where the spill is caused by the shipowner's intentional or reckless act or omission where the shipowner knew pollution damage would probably result. The CLC requires ships covered by it to maintain insurance covering the liability of the owner in a sum equivalent to an owner's liability for a single incident. We believe that our protection and indemnity insurance will cover the liability under the plan adopted by the IMO.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on shipowners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In addition, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements to be replaced in time with mandatory concentration limits. The BWM Convention will not become effective until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. To date, there has not been sufficient adoption of this standard for it to take force. However, Panama may adopt this standard in the relatively near future, which would be sufficient for it to take force. Upon entry into force of the BWM Convention, mid-ocean ballast exchange would be mandatory. Vessels would be required to be equipped with a ballast water treatment system that meets mandatory concentration limits not later than the first intermediate or renewal survey, whichever occurs first, after the anniversary date of delivery of the vessel in 2014, for vessels with ballast water capacity of 1500-5000 cubic meters, or after such date in 2016, for vessels with ballast water capacity of greater than 5000 cubic meters. If mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on our operations.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

**U.S. Regulations**

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all "owners and operators" whose vessels trade in the United States, its territories and possessions or whose vessels operate in U.S. waters, which includes the U.S. territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. OPA and CERCLA both define "owner and operator" in the case of a vessel as any person owning, operating or chartering by demise, the vessel. Accordingly, both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. OPA defines these other damages broadly to include:

- injury to, destruction or loss of, or loss of use of, natural resources and related assessment costs;
- injury to, or economic losses resulting from, the destruction of real and personal property;

- net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal property, or natural resources;
- loss of subsistence use of natural resources that are injured, destroyed or lost;
- lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and
- net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability to the greater of $2,000 per gross ton or $17.088 million for any double-hull tanker that is over 3,000 gross tons (subject to periodic adjustment for inflation), and our fleet is entirely composed of vessels of this size class. These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsibility party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of $300 per gross ton or $5 million for vessels carrying a hazardous substance as cargo and the greater of $300 per gross ton or $500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee. We have provided such evidence and received certificates of financial responsibility from the U.S. Coast Guard's for each of our vessels as required to have one.

OPA permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA. Some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters, however, in some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes.

Through our P&I Club membership, we expect to maintain pollution liability coverage insurance in the amount of $1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil, hazardous substances and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal,

remediation and damages and complements the remedies available under OPA and CERCLA. Furthermore, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The United States Environmental Protection Agency, or EPA, has enacted rules requiring a permit regulating ballast water discharges and other discharges incidental to the normal operation of certain vessels within United States waters under the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP. For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in United States waters. The EPA has proposed a draft 2013 Vessel General Permit to replace the current Vessel General Permit upon its expiration on December 19, 2013, authorizing discharges incidental to operations of commercial vessels. The draft permit also contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

U.S. Coast Guard regulations adopted and proposed for adoption under the U.S. National Invasive Species Act, or NISA, impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters, which could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures, and/or otherwise restrict our vessels from entering U.S. waters. In 2009, the Coast Guard proposed new ballast water management standards and practices, including limits regarding ballast water releases. As of November 2011, the Office of Management and Budget continues to review this proposed rule.

Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and/or otherwise restrict our vessels from entering U.S. waters.

**European Union Regulations**

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

**Greenhouse Gas Regulation**

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. However, in July 2011, the MEPC adopted two new sets of mandatory requirements to address greenhouse gas emissions from ships that will enter into force in January 2013. Currently operating ships will be required to develop Ship Energy Efficiency Management Plans, and minimum energy efficiency levels per capacity mile will apply to new ships. These requirements could cause us to incur additional compliance costs. The IMO is also considering the development of market-based mechanisms to reduce greenhouse gas emissions from ships. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to

succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures which we cannot predict with certainty at this time.

**International Labour Organization**

The International Labour Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world's tonnage have ratified it. The MLC 2006 has not yet been ratified, but its ratification would require us to develop new procedures to ensure full compliance with its requirements.

**Vessel Security Regulations**

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. Amendments to SOLAS Chapter VII, made mandatory in 2004, apply to vessels transporting dangerous goods and require those vessels be in compliance with the International Maritime Dangerous Goods Code (“IMDG Code”).

To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel’s flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship’s identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel’s hull;
- a continuous synopsis record kept onboard showing a vessel’s history, including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship’s identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

Ships operating without a valid certificate, may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by MTSA, SOLAS and the ISPS Code, and our fleet is in compliance with applicable security requirements.

**Inspection by classification societies**

Every seagoing vessel must be "classed" by a classification society. The classification society certifies that the vessel is ''in class,'' signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

- *Annual Surveys.* For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.

- *Intermediate Surveys.* Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys are to be carried out at or between the occasion of the second or third annual survey.

- *Class Renewal Surveys.* Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a vessel owner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle.

At an owner's application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most vessels are also dry-docked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a ''recommendation'' which must be rectified by the ship owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as “in-class” by a classification society which is a member of the International Association of Classification Societies. All our vessels are certified as being “in-class” by American Bureau of Shipping. All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard purchase contracts and memoranda of agreement. If the vessel is not certified on the scheduled date of closing, we have no obligation to take delivery of the vessel.

In addition to the classification inspections, many of our customers regularly inspect our vessels as a precondition to chartering them for voyages. We believe that our well-maintained, high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality.

**Risk of Loss and Liability Insurance**

***General***

The operation of any cargo vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which in certain circumstances imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for vessel-owners and operators trading in the United States market. While we believe that our present insurance coverage is adequate, not all risks can be insured against, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

**Marine and War Risks Insurance**

We have in force marine and war risks insurance for all of our vessels. Our marine hull and machinery insurance covers risks of particular average and actual or constructive total loss from collision, fire, grounding, engine breakdown and other insured named perils up to an agreed amount per vessel. Our war risks insurance covers the risks of particular average and actual or constructive total loss from confiscation, seizure, capture, vandalism, sabotage, and other war-related named perils. We have also arranged coverage for increased value for each vessel. Under this increased value coverage, in the event of total loss of a vessel, we will be able to recover amounts in excess of those recoverable under the hull and machinery policy in order to compensate for additional costs associated with replacement of the loss of the vessel. Each vessel is covered up to at least its fair market value at the time of the insurance attachment and subject to a fixed deductible per each single accident or occurrence, but excluding actual or constructive total loss.

***Protection and Indemnity Insurance***

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, and covers our third party liabilities in connection with our shipping activities. This includes third-party liability and other related expenses resulting from injury or death of crew, passengers and other third parties, loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances, and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by mutual protection and indemnity associations, or “clubs.” Subject to the “capping” discussed below, our coverage, except for pollution, is unlimited.

As a member of a P&I Club that is a member of the International Group of P&I Clubs, or the International Group, we carry protection and indemnity insurance coverage for pollution of $1 billion per vessel per incident. The P&I Clubs that comprise the International Group insure approximately 90% of the world’s commercial tonnage and have entered into a pooling agreement to reinsure each association’s liabilities. Although the P&I Clubs compete with each other for business, they have found it beneficial to pool their larger risks under the auspices of the International Group. This pooling is regulated by a contractual agreement which defines the risks that are to be pooled and exactly how these risks are to be shared by the participating P&I Clubs. We are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations and members of the pool of P&I Clubs comprising the International Group.

**C. Organizational Structure**

The following is a list of Scorpio Tankers Inc. subsidiaries as of December 31, 2011, all of which were 100% owned.

| Company | Incorporated in |
|---|---|
| Noemi Shipping Company Limited | The Republic of The Marshall Islands |
| Senatore Shipping Company Limited | The Republic of The Marshall Islands |
| Venice Shipping Company Limited | The Republic of The Marshall Islands |
| STI Harmony Shipping Company Limited | The Republic of The Marshall Islands |
| STI Heritage Shipping Company Limited | The Republic of The Marshall Islands |
| STI Conqueror Shipping Company Limited | The Republic of The Marshall Islands |
| STI Matador Shipping Company Limited | The Republic of The Marshall Islands |
| STI Gladiator Shipping Company Limited | The Republic of The Marshall Islands |
| STI Highlander Shipping Company Limited | The Republic of The Marshall Islands |
| STI Spirit Shipping Company Limited | The Republic of The Marshall Islands |
| STI Coral Shipping Company Limited | The Republic of The Marshall Islands |
| STI Diamond Shipping Company Limited | The Republic of The Marshall Islands |
| STI Amber Shipping Company Limited | The Republic of The Marshall Islands |
| STI Topaz Shipping Company Limited | The Republic of The Marshall Islands |
| STI Ruby Shipping Company Limited | The Republic of The Marshall Islands |
| STI Garnet Shipping Company Limited | The Republic of The Marshall Islands |
| STI Onyx Shipping Company Limited | The Republic of The Marshall Islands |
| STI Sapphire Shipping Company Limited | The Republic of The Marshall Islands |
| STI Emerald Shipping Company Limited | The Republic of The Marshall Islands |
| STI Chartering and Trading Limited | The Republic of The Marshall Islands |
| Sting LLC | State of Delaware, United States of America |

**D. Property, Plant and Equipment**

For a description of our fleet, see “ITEM 4.A. – History and Development of the Company” and “ ITEM 4.B. Business Overview – Our Fleet”.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. Operating Results**

*The following presentation of management’s discussion and analysis of results of operations and financial condition should be read in conjunction with our consolidated financial statements, accompanying notes thereto and other financial information appearing in “ITEM 18. Financial Statements”. You should also carefully read the following discussion with “Risk Factors,” “The International Tanker Industry,” “Cautionary Statement Regarding Forward-Looking Statements.” The consolidated financial statements as of December 31, 2011 and 2010 and for each the three years in the period ended December 31, 2011 have been prepared in accordance with IFRS as issued by the IASB. The consolidated financial statements are presented in U.S. Dollars ($) unless otherwise indicated. Any amounts converted from another non-U.S. currency to U.S. Dollars in this annual report are at the rate applicable at the relevant date, or the average rate during the applicable period. Prior to October 1, 2009, our historical*

*consolidated financial statements were prepared on a carve-out basis from the financial statements of Liberty and include all assets, liabilities and results of operations of our three vessel-owning subsidiaries, formerly subsidiaries of Liberty, for those periods.*

We anticipate additional opportunities to expand our fleet through acquisitions of tankers, and we believe that recent downward pressure on tanker values will present attractive investment opportunities to ship operators that have the necessary capital resources. We may purchase secondhand vessels that meet our specifications or newbuilding vessels, either directly from shipyards or from the current owners with shipyard contracts. The timing of these acquisitions will depend on our ability to identify suitable vessels on attractive purchase terms. Since our initial public offering, we have purchased nine vessels, entered into agreements to sell three vessels, time chartered-in 13 vessels and have contracted to build seven newbuilding vessels.

We generate revenues by charging customers for the transportation of their crude oil and other petroleum products using our vessels. Historically, these services generally have been provided under the following basic types of contractual relationships:

- *Voyage charters*, which are charters for short intervals that are priced on current, or "spot," market rates.
- *Time charters*, which are chartered to customers for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates, or current market rates.
- *Commercial Pools*, whereby we participate with other shipowners to operate a large number of vessels as an integrated transportation system, which offers customers greater flexibility and a higher level of service while achieving scheduling efficiencies. Pools negotiate charters primarily in the spot market. The size and scope of these pools enable them to enhance utilization rates for pool vessels by securing backhaul voyages and contracts of affreightment (described below), thus generating higher effective time charter equivalent, or TCE, revenues than otherwise might be obtainable in the spot market.
- For all types of vessels in contractual relationships, we are we are responsible for crewing and other vessel operating costs for our owned vessels and the charter hire expense for vessels that we time charter-in.

The table below illustrates the primary distinctions among these different employment arrangements:

| | **Voyage Charter** | **Time Charter** | **Commercial Pool** |
|---|---|---|---|
| Typical contract length | Single voyage | One year or more | Varies |
| Hire rate basis(1) | Varies | Daily | Varies |
| Voyage expenses(2) | We pay | Customer pays | Pool pays |
| Vessel operating costs for owned vessels(3) | We pay | We pay | We pay |
| Charterhire expense for vessels chartered-in(3) | We pay | We pay | We pay |
| Off-hire (4) | Customer does not pay | Customer does not pay | Pool does not pay |

(1) *"Hire rate"* refers to the basic payment from the charterer for the use of the vessel.

(2) *"Voyage expenses"* refers to expenses incurred due to a vessel's traveling from a loading port to a discharging port, such as fuel (bunker) cost, port expenses, agent's fees, canal dues and extra war risk insurance, as well as commissions.

(3) Defined below under "—Important Financial and Operational Terms and Concepts."

(4) *"Off-hire"* refers to the time a vessel is not available for service due primarily to scheduled and unscheduled repairs or drydockings.

As of December 31, 2011, certain of our owned and time chartered-in vessels *(Venice, Senatore, Noemi, STI Conqueror, STI Gladiator, STI Harmony, STI Heritage, STI Highlander, STI Matador, STI Spirit, Krisjanis Valdemars, Kraslava, Kazdanga, Khawr Aladid, Histria Perla and Histria Coral),* were operated in Scorpio Group Pools managed by SCM. The majority of the vessels in these pools trade in the spot market. As of December 31, 2011,

the *STI Coral* and *STI Diamond* were traded in the spot market. In addition, we time-chartered-in the *Pacific Duchess*, *Targale* and *Pacific Marchioness* after December 31, 2011 and these vessels trade in the spot market.

**IMPORTANT FINANCIAL AND OPERATIONAL TERMS AND CONCEPTS**

We use a variety of financial and operational terms and concepts. These include the following:

***Vessel revenues.*** Vessel revenues primarily include revenues from time charters, pool revenues and voyage charters (in the spot market). Vessel revenues are affected by hire rates and the number of days a vessel operates. Vessel revenues are also affected by the mix of business between vessels on time charter, vessels in pools and vessels operating on voyage charter. Revenues from vessels in pools and on voyage charter are more volatile, as they are typically tied to prevailing market rates.

***Voyage charters.*** Voyage charters or spot voyages are charters under which the customer pays a transportation charge for the movement of a specific cargo between two or more specified ports. The shipowner pays all voyage expenses and vessel operating costs unless the vessel to which the charter relates has been time chartered-in.

***Voyage expenses.*** Voyage expenses primarily include bunkers, port charges, canal tolls, cargo handling operations and brokerage commissions paid by us under voyage charters. These expenses are subtracted from voyage charter revenues to calculate time charter equivalent revenues.

***Vessel operating costs.*** We are responsible for vessel operating costs, which include crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses, and technical management fees. The two largest components of our vessel operating costs are crews, and repairs and maintenance. Expenses for repairs and maintenance tend to fluctuate from period to period because most repairs and maintenance typically occur during periodic drydocking. Please read “Drydocking” below. We expect these expenses to increase as our fleet matures and to the extent that it expands.

Additionally, these costs include technical management fees that we paid to Scorpio Ship Management, or SSM, which is controlled by the Lolli-Ghetti family. Pursuant to our technical management agreement, SSM provides us with technical services and we provide them with the ability to subcontract technical management of our vessels with our approval. We believe our technical management fees for the year ended December 31, 2011 were at market rates because they are the same rates as those charged to third-party vessels managed by SSM.

***Charterhire.*** Charterhire is the amount we pay the owner for time chartered-in vessels. The amount is usually for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates, or current market rates. The vessel’s owner is responsible for crewing and other vessel operating costs

***Drydocking.*** We periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. Generally, each vessel is drydocked every 30 months to 60 months. We capitalize a substantial portion of the costs incurred during drydocking and amortize those costs on a straight-line basis from the completion of a drydocking to the estimated completion of the next drydocking. We immediately expense costs for routine repairs and maintenance performed during drydocking that do not improve or extend the useful lives of the assets. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

***Depreciation.*** Depreciation expense typically consists of:

- charges related to the depreciation of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of the vessels; and

- charges related to the amortization of drydocking expenditures over the estimated number of years to the next scheduled drydocking.

***Time charter equivalent revenue or rates.*** We report time charter equivalent, or TCE, revenues, a non-IFRS measure, because our management believes it provides additional meaningful information in conjunction with voyage revenues and voyage expenses, the most directly comparable IFRS measure, because it assists our management in making decisions regarding the deployment and use of our vessels and in evaluating their financial performance. TCE revenue is also included herein because it is a standard shipping industry performance measure used primarily to compare period-to-period changes in a shipping company's performance irrespective of changes in the mix of charter types (i.e., spot charters, time charters and bareboat charters) under which the vessels may be employed between the periods and because we believe that it presents useful information to investors. TCE revenue is vessel revenue less voyage expenses, including bunkers and port charges. The TCE rate achieved on a given voyage is expressed in U.S. dollars/day and is generally calculated by taking TCE revenue and dividing that figure by the number of revenue days in the period. For a reconciliation of TCE revenue, deduct voyage expenses from revenue on our Statement of Profit or Loss.

***Revenue days.*** Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with major repairs or drydockings. Consequently, revenue days represent the total number of days available for the vessel to earn revenue. Idle days, which are days when a vessel is available to earn revenue, yet is not employed, are included in revenue days. We use revenue days to show changes in net vessel revenues between periods.

***Average number of vessels.*** Historical average number of vessels consists of the average number of vessels that were in our possession during a period. We use average number of vessels primarily to highlight changes in vessel operating costs and depreciation and amortization.

***Contract of affreightment.*** A contract of affreightment, or COA, relates to the carriage of specific quantities of cargo with multiple voyages over the same route and over a specific period of time which usually spans a number of years. A COA does not designate the specific vessels or voyage schedules that will transport the cargo, thereby providing both the charterer and shipowner greater operating flexibility than with voyage charters alone. The charterer has the flexibility to determine the individual voyage scheduling at a future date while the shipowner may use different vessels to perform these individual voyages. As a result, COAs are mostly entered into by large fleet operators, such as pools or shipowners with large fleets of the same vessel type. All of the ship's operating, voyage and capital costs are borne by the shipowner while the freight rate normally is agreed on a per cargo ton basis.

***Commercial pools.*** To increase vessel utilization and revenues, we participate in commercial pools with other shipowners of similar modern, well-maintained vessels. By operating a large number of vessels as an integrated transportation system, commercial pools offer customers greater flexibility and a higher level of service while achieving scheduling efficiencies. Pools employ experienced commercial charterers and operators who have close working relationships with customers and brokers, while technical management is performed by each shipowner. Pools negotiate charters with customers primarily in the spot market. The size and scope of these pools enable them to enhance utilization rates for pool vessels by securing backhaul voyages and COAs, thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market while providing a higher level of service offerings to customers.

***Operating days***. Operating days are the total number of available days in a period with respect to the owned vessels, before deducting available days due to off-hire days and days in drydock. Operating days is a measurement that is only applicable to our owned vessels, not our chartered-in vessels.

**ITEMS YOU SHOULD CONSIDER WHEN EVALUATING OUR RESULTS**

You should consider the following factors when evaluating our historical financial performance and assessing our future prospects:

***Our vessel revenues are affected by cyclicality in the tanker markets***. The cyclical nature of the tanker industry causes significant increases or decreases in the revenue we earn from our vessels, particularly those vessels we trade in the spot market. We employ a chartering strategy to capture upside opportunities in the spot market while using fixed-rate time charters to reduce downside risks, depending on SCM's outlook for freight rates, oil tanker market conditions and global economic conditions. Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply of, and demand for, tanker capacity. The supply of tanker capacity is influenced by the number and size of new vessels built, vessels scrapped, converted and lost, the number of vessels that are out of service, and regulations that may effectively cause early obsolescence of tonnage. The demand for tanker capacity is influenced by, among other factors:

- global and regional economic and political conditions;
- increases and decreases in production of and demand for crude oil and petroleum products;
- increases and decreases in OPEC oil production quotas;
- the distance crude oil and petroleum products need to be transported by sea; and
- developments in international trade and changes in seaborne and other transportation patterns.

***Tanker rates also fluctuate based on seasonal variations in demand.*** Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere but weaker in the summer months as a result of lower oil consumption in the northern hemisphere and refinery maintenance that is typically conducted in the summer months. In addition, unpredictable weather patterns during the winter months in the northern hemisphere tend to disrupt vessel routing and scheduling. The oil price volatility resulting from these factors has historically led to increased oil trading activities in the winter months. As a result, revenues generated by our vessels have historically been weaker during the quarters ended June 30 and September 30, and stronger in the quarters ended March 31 and December 31.

***Our general and administrative expenses were affected by the commercial management and administrative services agreements we entered into in December 2009 with SCM and Liberty Holding Company Ltd., respectively, and costs incurred from being a public company.*** SCM and Liberty, companies controlled by the Lolli-Ghetti family of which our founder, Chairman and Chief Executive Officer is a member, provide commercial and administrative management services to us, respectively. In December 2009, we entered into a commercial management agreement with SCM and an administrative services agreement with Liberty. On March 13, 2012, Liberty assigned its interests and obligations in the administrative services agreement to SSH, a company controlled by the Lolli-Ghetti family. The effective date of the novation was November 9, 2009, the date that we first entered into the agreement with Liberty. We pay fees under our commercial management agreement, which are identical to what SCM charges to its pool participants, including third-party owned vessels. We reimburse our Administrator for the reasonable direct or indirect expenses it incurs in providing us with the administrative services described above. We also pay our Administrator a fee for arranging vessel purchases and sales for us equal to 1% of the gross purchase or sale price, payable upon the consummation of any such purchase or sale. We believe this 1% fee on purchases and sales is customary in the tanker industry. In addition, we continue to incur general and administrative expenses related to our being a publicly traded company, including, among other things, costs associated with reports to shareholders, filings with the U.S. Securities Exchange Commission, investor relations, New York Stock Exchange fees and tax compliance expenses.

**RESULTS OF OPERATIONS**

The following tables separately present our operating results for the years ended December 31, 2011, 2010 and 2009.

**RESULTS OF OPERATIONS FOR THE Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010**

| | For the Year Ended December 31, | | | Percentage | |
|---|---|---|---|---|---|
| | 2011 | 2010 | Change | Change | |
| Vessel revenue | $82,109,691 | $38,797,913 | $43,311,778 | 112 | % |
| Vessel operating costs | (31,369,646) | (18,440,492) | (12,929,154) | (70 | %) |
| Voyage expenses | (6,881,019 ) | (2,542,298 ) | (4,338,721 ) | (171 | %) |
| Charterhire | (22,750,257) | (275,532 ) | (22,474,725) | (8157 | %) |
| Impairment | (66,610,544) | — | (66,610,544) | N/A | |

| | | | | | |
|---|---|---|---|---|---|
| Depreciation | (18,460,117) | (10,178,908) | (8,281,209) | (81 | %) |
| General and administrative expenses | (11,636,713) | (6,200,094) | (5,436,619) | (88 | %) |
| Financial expenses | (7,060,027) | (3,230,895) | (3,829,132) | (119 | %) |
| Realized loss on derivative financial instruments | — | (279,560) | 279,560 | N/A | |
| Financial income | 51,008 | 36,534 | 14,474 | 40 | % |
| Other expense, net | (118,968) | (508,766) | 389,798 | 77 | % |
| Net loss | (82,726,592) | (2,822,098) | (79,904,495) | 2831 | % |

***Net Loss.*** For the year ended December 31, 2011, we incurred a net loss of $82.7 million, compared to a net loss of $2.8 million for the year ended December 31, 2010. The differences between the two periods are discussed below.

***Vessel revenue.*** Vessel revenue was $82.1 million for the year ended December 31, 2011, an increase of $43.3 million, or 112%, from vessel revenue of $38.8 million for the year ended December 31, 2010. The following table summarizes our revenue:

| | For the year Ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2011 | 2010 | Change | | |
| Owned vessels | | | | | |
| Time charter revenue | $9,626,401 | $19,417,128 | $(9,790,727 ) | (50 | %) |
| Pool revenue | 39,521,617 | 15,179,603 | 24,342,013 | 160 | % |
| Voyage revenue | 12,286,812 | 3,916,529 | 8,370,283 | 214 | % |
| Time chartered-in vessels | | | | | |
| Pool revenue | 20,674,861 | 284,653 | 20,390,208 | 7163 | % |
| TOTAL | $82,109,691 | $38,797,913 | $43,311,778 | 112 | % |

The decrease in time charter revenue of $9.8 million, or 50%, was the result of a decrease in the overall number of days of vessels on time charter to 427 in 2011 compared to 854 in 2010. This decrease was the result of the expiration of time charter contracts on the *Senatore* (expired August 2010), *STI Harmony* (expired September 2010), and *STI Heritage* (expired November 2010). *Noemi* was employed on a time charter for both periods that began in 2007 and expired in December 2011, and *STI Spirit* was employed on a short term time charter for 72 days during 2011.

The increase in pool revenue for owned vessels of $24.3 million, or 160%, was primarily the result of an increase in the number of pool revenue days to 3,149 in 2011 from 1,185 in 2010. This increase was attributable to growth of the fleet as our average number of owned vessels was 11.29 for the year ended December 31, 2011, compared to 6.19 for the year ended December 31, 2010.

The increase in voyage revenue of $8.4 million, or 214%, is a result of an increase in the number of days that our vessels operated in the spot market to 450 days in 2011 compared to 177 in 2010, in addition to an increase in TCE to $12,092 per day in 2011 from $7,774 per day in 2010. During 2011, the *STI Coral* and *STI Diamond* operated in the spot market for 450 days combined. During 2010, our newly purchased vessels, *STI Conqueror, STI Gladiator, STI Matador* and *STI Highlander* operated in the spot market prior to their entry in the Scorpio Handymax Tanker Pool for 167 days. Additionally, the *Senatore* operated in the spot market for 10 days subsequent to the termination of its time charter agreement and prior to its entry in the Scorpio Panamax Tanker Pool.

The increase of pool revenue for time chartered-in vessels of $20.3 million, or 7,163%, in 2011 compared to 2010 was due to an increase in the number of pool revenue days for time chartered-in vessels. In 2011, the *BW Zambesi, Krisjanis Valdemars, Kraslava, Kazdanga, Histria Azure, Histria Perla, Histria Coral* and *Khawr Aladid* were time chartered-in for 1,806 days, while in 2010, the *BW Zambesi* was time chartered-in for 20 days. All vessels operated in the Scorpio Group Pools.

***Vessel operating costs.*** Vessel operating costs for owned vessels of $31.4 million for the year ended December 31, 2011, increased $12.9 million, or 70% from $18.4 million for the year ended December 31, 2010. The increase is the result of an additional 1,863 operating days in 2011 which was driven by the purchase of two vessels in 2011 and seven vessels throughout 2010, which operated for a full year in 2011 as opposed to partial years in 2010.

***Voyage expenses.*** The increase in voyage expenses is a result of an increase in the number of days that our vessels operated in the spot market to 450 in 2011 from 177 in 2010. During 2011, the *STI Coral* and *STI Diamond* operated in the spot market for 450 days combined. During 2010, our newly purchased vessels, *STI Conqueror, STI Gladiator, STI Matador* and *STI Highlander* operated in the spot market for 167 days prior to their entry in the Scorpio Handymax Tanker Pool. Additionally, the *Senatore* operated in the spot market for 10 days subsequent to the termination of its time charter agreement and prior to its entry in the Scorpio Panamax Tanker Pool.

***Charterhire.*** Charterhire expense of $22.8 million for the year ended December 31, 2011 increased $22.5 million, or 8,157%, from $0.3million for the year ended December 31, 2010. The increase was due to an increase of the number of time chartered-in days in 2011. In 2011, the *BW Zambesi, Krisjanis Valdemars, Kraslava, Kazdanga, Histria Azure, Histria Perla, Histria Coral and Khawr Aladid* were time chartered-in for 1,806 days, while in 2010, the *BW Zambesi* was time chartered-in for 20 days.

***Impairment.*** In the year ended December 31, 2011, we recognized an impairment loss of $66.6 million for our 12 owned vessels. This impairment loss was triggered by reductions in vessel values, and represented the difference between the carrying value and recoverable amount, being fair value less cost to sell. In determining the fair value less cost to sell, we took into consideration the estimated valuations provided by independent ship brokers. No impairments were recognized in the year ended December 31, 2010.

*Impairment methodology*

The carrying values of our vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of constructing new vessels. At each reporting period end date, we review the carrying amounts of our vessels to determine whether there is any indication that those vessels may have suffered an impairment loss. In this regard, fluctuations in market values below carrying values are considered to represent an impairment triggering event that necessitates performance of a full impairment review.

Impairment losses are calculated as the excess of a vessel's carrying amount over its recoverable amount. Under IFRS, the recoverable amount is the higher of an asset's (i) fair value less costs to sell and (ii) value in use. Fair value less costs to sell is defined by IFRS as "the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal". When we calculate value in use, we discount the expected future cash flows to be generated by our vessels to their net present value.

Our impairment evaluation is performed on an individual vessel basis twice each year. First, we assess the fair value less the cost to sell our vessels taking into consideration vessel valuations from leading, independent and internationally recognized ship brokers. We then compare that estimate of market values (less an estimate of selling costs) to each vessel's carrying value and, if the carrying value exceeds the vessel's market value, an indicator of impairment exists. The indicator of impairment prompts us to perform a calculation of the potentially impaired vessel's value in use, in order to appropriately determine the 'higher of' the two values.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. In developing estimates of future cash flows, we make assumptions about future charter rates, vessel operating expenses, the estimated remaining useful lives of the vessels

and the discount rate. These assumptions are based on historical trends as well as future expectations. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions are highly subjective. Reasonable changes in the assumptions for the discount rate or future charter rates could lead to a value in use for some of our vessels that is equal to or less than the carrying amount for such vessels. All of the aforementioned assumptions have been highly volatile in both the current market and historically. Given the current and historical volatility in market prices for similar vessels and recent downward pressure on charter rates, the fair value less estimated costs to sell in the current year reflected potential indicators of impairment for all of our owned vessels.

For the year ended December 31, 2011, we performed an assessment as described above. At that date, the carrying amounts of our vessels were greater than the basic, meaning charter free, market value for all of our owned vessels. In line with our policy we performed a value in use calculation where we estimated each vessels' future cash flows based on a combination of the latest forecast time charter rates for the next three years (obtained from a third party service provider), a growth rate in freight rates for each period which is based on management's long-term view of the market, and our best estimate of vessel operating expenses and drydock costs.. These cash flows were then discounted to their present value, using a discount rate based on our current borrowing rates adjusted for certain credit risks. The value in use calculations for all vessels were less than both the fair value less estimated costs to sell and carrying amounts of the vessels. As a result of this testing, we recorded an impairment loss of $66.6 million to adjust the carrying amounts of our vessels to reflect fair value less estimated costs to sell.

*Illustrative comparison of excess of carrying amounts over estimated charter-free market value of certain vessels*

During the past few years, the market values of vessels have experienced particular volatility, with substantial declines in many vessel classes. As a result, the charter-free market value, or basic market value, of certain of our vessels may have declined below the carrying amounts of those vessels. After undergoing this analysis at December 31, 2011, we concluded that the recoverable amount of each of our vessels was lower than their carrying values and consequently, an impairment loss was required for each of our 12 owned vessels.

The table set forth below indicates the carrying amount of each of our vessels as of December 31, 2011.

Our estimate of basic market value assume that our vessels are all in good and seaworthy condition without need for repair and if inspected would be certified in class without notations of any kind. Our estimates are based on information available from various industry sources, including:

- reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;
- news and industry reports of similar vessel sales;
- news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;
- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and
- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

As we obtain information from various industry and other sources, our estimates of basic market value are inherently uncertain. In addition, vessel values and revenues are highly volatile; as such, our estimates may not be indicative of the current or future basic market value of our vessels or prices that we could achieve if we were to sell them.

| | Vessel Name | Year Built | Carrying Value (in $ millions)* |
|---|---|---|---|
| 1 | STI Highlander | 2007 | $ 24.4 |
| 2 | STI Gladiator | 2003 | 17.8 |
| 3 | STI Matador | 2003 | 18.3 |
| 4 | STI Conqueror | 2005 | 20.5 |
| 5 | STI Coral | 2008 | 28.3 |
| 6 | STI Diamond | 2008 | 28.3 |
| 7 | Noemi | 2004 | 28.4 |
| 8 | Senatore | 2004 | 28.4 |
| 9 | STI Harmony | 2007 | 35.3 |
| 10 | STI Heritage | 2008 | 35.9 |
| 11 | Venice | 2001 | 19.1 |
| 12 | STI Spirit | 2008 | 37.7 |
| | Total | | $ 322.5 |

* Given that each of our vessels was impaired at December 31, 2011 based on fair value less cost to sell, the carrying amounts noted above are representative of fair value less estimated costs to sell as of December 31, 2011.

We refer you to the risk factor entitled “The market values of our vessels may decrease, which could cause us to breach covenants in our credit facilities and adversely affect our operating results.” and the discussion herein under the heading “Risks Related To Our Industry”

***Depreciation.*** Depreciation of $18.5 million for the year ended December 31, 2011 increased $8.3 million, or 81%, from $10.2 million for the year ended December 31, 2010. The increase in depreciation expense was primarily due to an increase in our average number of owned vessels to 11.29 in 2011 from 6.19 in 2010. This increase was offset by a change in the depreciable life of our owned vessels from 20 to 25 years in the second quarter 2010. The estimated useful life of 25 years is management’s best estimate and is also consistent with industry practice for similar vessels. This change in estimate was applied prospectively and the impact on the income statement for the year ended December 31, 2010 resulted in a decrease in depreciation expense and increase in net income of $1.2 million. This change will result in a decrease in depreciation expense (after considering the effect of the impairment noted above) of approximately $1.2 million for each year prospectively until the 20 year anniversary date of the vessels impacted by this change. See discussion of this change in estimate in Note 1 to the audited consolidated financial statements included in “ITEM 18 Financial Statements”.

***General and administrative expense.*** General and administrative expense, which includes commercial management and administrative fees, of $11.6 million for the year ended December 31, 2011, increased $5.4 million, or 88%, from $6.2 million for the year ended December 31, 2010. The increase is a result of incremental costs incurred to operate as a public company and additional compensation arrangements that were entered into as part of the initial public offering in April 2010. This was specifically driven by an increase in the amortization of restricted stock issued in June 2010 and January 2011, a full year of salary costs, directors and officers insurance and fees, legal fees, audit fees and other related expenses.

***Financial expenses.*** Financial expenses of $7.1 million for the year ended December 31, 2011, increased $3.8 million, or 119%, from $3.2 million for the year ended December 31, 2010. Financial expenses for the year ended December 31, 2011 consisted of interest on bank loans ($5.0 million), commitment fees on undrawn portions of the

Company's 2010 and 2011 Credit Facilities ($1.1 million ) and amortization of deferred financing fees ($1.0 million). Financial expenses for the year ended December 31, 2010 consisted of interest on bank loan ($2.4 million), which at the time only consisted of the 2010 Revolving Credit Facility, commitment fees on undrawn portions of the Company's 2010 Revolving Credit Facility ($0.6 million) and amortization of deferred financing fees ($0.2 million). See the discussion in Long-Term Debt Obligations and Credit Arrangements below for details surrounding changes in the Company's bank loans throughout 2011 which affected the components of financial expenses.

***Realized loss on derivative financial instruments.*** Realized loss on derivatives from our interest rate swap, was $0.3 million for the year ended December 31, 2010. The realized loss is the result of the settlement difference between contracted interest rates and the actual market interest rates (LIBOR). The interest rate swap, which was related to the 2005 Credit Facility and did not qualify for hedge accounting, was terminated on April 9, 2010.

***Financial income.*** Interest income was $51,008 for the year ended December 31, 2011, an increase of $14,474 or 40% from the $36,534 for the year ended December 31, 2010. The increase was primarily due to an increase in our average cash balance during the period.

***Other expenses, net.*** Other expense, net was a loss of $118,968 for the year ended December 31, 2011, and a loss of $508,766 for the year ended December 31, 2010. The decrease was primarily driven by expenses incurred for the initial public offering in April 2010.

**Results of operations – segment analysis**

***Aframax/LR2 segment***

The following table summarizes vessel operations for our Aframax segment.

| *Aframax/LR2 segment* | For the year **Ended December 31** | | | **Percentage** | |
|---|---|---|---|---|---|
| | 2011 | 2010 | Change | Change | |
| Vessel revenue | $6,484,272 | $641,278 | $5,842,994 | 911 | % |
| Vessel operating costs | (2,547,436) | (426,788) | (2,120,648) | 497 | % |
| Charterhire | (838,793) | — | (838,793) | N/A | |
| Impairment | (12,458,512) | — | (12,458,512) | N/A | |
| Depreciation | (2,074,352) | (293,211) | (1,781,141) | 607 | % |
| General and administrative expenses | (135,589) | (14,747) | (120,842) | 819 | % |
| Financial expenses | (841,066) | 778 | (841,844) | (108,206 | %) |
| Other expense, net | (133,547) | — | (133,547) | N/A | |
| Segment loss | $(12,545,024) | $(92,690) | (12,452,334) | 13434 | % |
| | | | | | |
| Time charter revenue per day | 15,457 | — | 15,457 | N/A | |
| Pool revenue per day | 14,849 | 12,460 | 2,389 | 19 | % |
| Operating costs per day | 6,960 | 8,293 | (1,342) | (16 | %) |
| | | | | | |
| Time charter revenue days | 72 | — | 72 | N/A | |
| Pool revenue days | 361 | 51 | 310 | 602 | % |
| Operating days | 365 | 51 | 314 | 609 | % |
| | | | | | |
| Average number of owned vessels | 1.00 | 0.14 | 0.86 | 609 | % |
| Average number of time chartered-in vessels | 0.19 | — | 0.19 | N/A | |

On November 2010, we took delivery of the *STI Spirit*, a 113,091 dwt Aframax/LR2 product tanker. From delivery on November 10, 2010 through January 11, 2011, the *STI Spirit* operated in the Scorpio Aframax Tanker Pool, which traded a mix of crude and product tankers. As of March 25, 2011, this vessel joined the Scorpio LR2 Pool, which focuses solely on product tankers.

***Vessel Revenue.*** Vessel revenue of $6.5 million for the year ended December 31, 2011, increased $5.8 million, or 911%, as the result of an increase in the overall number of total revenue days to 434 days in 2011 from 51 days in 2010. This was driven by the acquisition of the *STI Spirit*. Additionally, we took delivery of the *Khawr Aladid*, a 2006 built LR2 product tanker (106,003 DWT), on October 24, 2011, on a six month time charter-in agreement.

***Vessel operating costs.*** Vessel operating costs of $2.5 million for the year ended December 31, 2011, increased $2.1 million or 497% as a result of an increase in the number of operating days to 365 in 2011 from 51 in 2010 which was driven by the purchase of the *STI Spirit* in November 2010.

***Charterhire.*** Charterhire expense of $0.9 million for the year ended December 31, 2011 was driven by the delivery of the *Khawr Aladid*, a 2006 built LR2 product tanker (106,003 DWT), on October 24, 2011, on a six month time charter-in agreement. There were no time chartered-in vessels in the Aframax/LR2 segment in 2010.

***Impairment.*** In the year ended December 31, 2011, we recognized an impairment loss of $12.5 million for the Aframax/LR2 segment. No impairment was recognized in 2010.

***Depreciation.*** Depreciation and amortization expense of $2.1 million for the year ended December 31, 2011 increased $1.8 million, or 607%, from $0.3 million for the year ended December 31, 2010. The increase is due to an increase in the number of operating days to 365 in 2011 from 51 in 2010 which was driven by the purchase of the *STI Spirit* in November 2010.

***General and administrative expense.*** General and administrative expense of $0.1 million for the year ended December 31, 2011, increased $0.1 million or 819% from $14,747 for the year ended December 31, 2010. General and administrative expenses for the Aframax/LR2 segment primarily consist of commercial management fees and administrative fees to SCM. The increase is due to an increase in the number of revenue days to 434 in 2011 from 51 in 2010 which was driven by the purchase of the *STI Spirit* in November 2010 and delivery of the *Khawr Aladid* in October 2011. These fees are described in Note 15 to the audited consolidated financial statements in “ITEM 18 Financial Statements”.

***Financial expenses.*** Financial expenses was $0.8 million for the year ended December 31, 2011, an increase of approximately $0.8 million or 108,206% from $778 for year ended December 31, 2010. Financial expenses for the Aframax/LR2 segment represents interest for the STI Spirit Credit Facility which was signed and drawn in March 2011.

***Other expense, net.*** Other expense, net was a loss of $133,547 for the year ended December 31, 2011. There were no other expenses for the year ended December 31, 2010. This increase is primarily due to the write-off of vessel purchase options that were acquired as part of the purchase of the *STI Spirit* in November 2010 and expired unexercised in September 2011.

***Panamax/LR1 segment***

The following table summarizes vessel operations for our Panamax segment

| *Panamax/LR1 segment* | For the year Ended December 31 2011 | 2010 | Change | Percentage Change |
|---|---|---|---|---|
| Vessel revenue | $31,100,705 | $29,344,505 | $1,756,200 | 6 % |
| Vessel operating costs | (14,427,452) | (12,363,968) | (2,063,485) | 17 % |
| Voyage expenses | (13,383) | (253,106) | 239,723 | (95 %) |
| Charterhire | (4,553,829) | (275,532) | (4,278,297) | 1553 % |
| Impairment | (28,616,341) | — | (28,616,341) | N/A |
| Depreciation | (9,279,150) | (7,493,632) | (1,785,518) | 24 % |
| General and administrative expenses | (691,943) | (600,476) | (91,467) | 15 % |
| Financial expenses | 420 | (133,708) | 134,128 | (100 %) |
| Realized loss on derivative financial instruments | — | (279,560) | 279,560 | N/A |

| | | | | | |
|---|---|---|---|---|---|
| Other expense, net | 22,802 | (4,420) | 27,222 | (616 | %) |
| Segment (loss)/profit | $(26,458,171) | $7,940,103 | (34,398,275) | (433 | %) |
| | | | | | |
| Time charter revenue per day | 23,962 | 22,363 | 1,599 | 7 | % |
| Pool revenue per day | 12,876 | 15,560 | (2,684) | (17 | %) |
| Voyage revenue per day | — | 2,839 | (2,839) | N/A | |
| Operating costs per day | 7,891 | 8,189 | (330) | (4 | %) |
| | | | | | |
| Time charter revenue days | 355 | 868 | (513) | (59 | %) |
| Pool revenue days | 1,754 | 620 | 1,134 | 183 | % |
| Voyage revenue days | — | 10 | (10) | N/A | |
| Operating days | 1,825 | 1,510 | 315 | 21 | % |
| | | | | | |
| Average number of owned vessels | 5.00 | 4.14 | 0.86 | 21 | % |
| Average number of time chartered-in vessels | 0.91 | 0.05 | 0.86 | 1565 | % |

***Vessel Revenue.*** Vessel revenue for the year ended December 31, 2011 was $31.1 million, an increase of $1.8 million, or 6% from $29.3 million for the year ended December 31, 2010. The increase in revenue was the result of an increase in the overall number of total revenue days to 2,109 days in 2011 from 1,498 days in 2010. This was driven by an increase in pool days of 1,134 offset by a decrease in time charter days of 513. The *STI Harmony* and *STI Heritage* were acquired in June 2010 with existing time charter contracts that expired in September and December 2010, respectively. These, along with the time charter contracts with the *Noemi* and *Senatore* comprised the time charter revenue for 2010. The time charter contract for the *Senatore* expired in August 2010. The time charter arrangement for the *Noemi* expired in December 2011 and was the only vessel in this segment on time charter during 2011. All of these vessels entered the Scorpio Panamax Tanker Pool subsequent to the expiration of the time charters.

As such, in 2011, five of our owned vessels and one of our time chartered-in vessels operated in the Scorpio Panamax Tanker Pool. In 2010, four of our owned vessels and one of our time chartered-in vessels operated in the Scorpio Panamax Tanker Pool. The increase was offset by an overall decrease in daily TCE rates to $12,876 per day in 2011, from $15,560 per day in 2010.

***Vessel operating costs.*** Vessel operating costs of $14.4 million increased $2.1 million or 17%, as a result of an increase in the number of operating days to 1,825 in 2011 from 1,510 in 2010, which was driven by the purchase of the *STI Harmony* and *STI Heritage* in June 2010 and therefore a full year of usage in 2011.

***Voyage expenses.*** Voyage expenses of $13,383 decreased $0.2 million or 95% as a result of the *Senatore* operating in the spot market for 10 days subsequent to the termination of its time charter agreement and prior to its entry in the Scorpio Panamax Tanker Pool.

***Charterhire.*** Charterhire expense of $4.5 million for the year ended December 31, 2011 decreased $4.2 million or 1,553% from $0.3 million for the year ended December 31, 2010. The increase was due to the *BW Zambesi* which was chartered-in for a total of 333 days in 2011 and 20 days in 2010 at a charterhire rate of $13,850 per day.

***Impairment.*** In the year ended December 31, 2011, we recognized an impairment loss of $28.6 million for our owned Panamax/LR1 vessels. No impairment was recognized in 2010.

***Depreciation.*** Depreciation expense of $9.3 million for the year ended December 31, 2011, increased by $1.8 million, or 24% from $7.5 million for the year ended December 31, 2010. The increase in depreciation expense was primarily due to an increase in our average number of owned vessels to 5.00 in 2011 from 4.14 in 2010. This increase was offset by the effect from a change in the depreciable life of our owned vessels from 20 to 25 years, which occurred in the second quarter of 2010, together with the effect of an increase in estimated residual values of our vessels. See discussion of these changes in Note 1 to the audited consolidated financial statements included in “ITEM 18 Financial Statements.”

***General and administrative expense.*** General and administrative expense of $0.7 million for the year ended December 31, 2011, increased $0.1 million, or 15% from $0.6 million for the year ended December 31, 2010. General and administrative expenses for the Panamax/LR1 segment primarily consist of commercial management fees and administrative fees to SCM. The increase is the result of an increase in the average number of owned vessels to 5.00 in 2011 to 4.14 in 2010. These fees are described in Note 15 to the audited consolidated financial statements in "ITEM 18 Financial Statements".

***Financial expenses.*** Financial expenses were $0.2 million for the year ended December 31, 2010. Financial expenses for the Panamax/LR1 segment represent interest for the 2005 Credit Facility which was repaid in April 2010.

***Realized loss on derivative financial instruments.*** Realized loss on derivative financial instruments was $0.3 million for the year ended December 31, 2010. The realized loss is the result of the settlement difference between contracted interest rates and the actual market interest rates (LIBOR) on an interest rate swap that was related to the 2005 Credit Facility, and was terminated on April 9, 2010.

***MR Segment***

The following table summarizes vessel operations for our MR segment. On May 10, 2011, we took delivery of *STI Coral* and *STI Diamond* and we did not have vessels operating in this segment in prior periods. As such, no further commentary has been provided in respect of this segment as a year-on-year comparison is not applicable.

| *MR segment* | For the year Ended December 31 2011 |
|---|---|
| Vessel revenue | $12,286,812 |
| Vessel operating costs | (3,178,352) |
| Voyage expenses | (6,841,876) |
| Impairment | (12,573,388) |
| Depreciation | (2,038,214) |
| General and administrative expenses | (313,782) |
| Segment loss | $(12,658,800) |
| | |
| Voyage revenue per day | 12,092 |
| Operating costs per day | 6,748 |
| | |
| Voyage revenue days | 450 |
| Operating days | 471 |
| | |
| Average number of owned vessels | 1.29 |

***Handymax segment***

The following table summarizes vessel operations for our Handymax segment

| *Handymax segment* | For the year **Ended December 31** 2011 | 2010 | Change | **Percentage** Change |
|---|---|---|---|---|
| Vessel revenue | $32,237,902 | $8,812,130 | $23,425,771 | 266 % |
| Vessel operating costs | (11,216,406) | (5,649,736) | (5,566,669) | 99 % |
| Voyage expenses | (25,760) | (2,289,192) | 2,263,432 | (99 %) |
| Charterhire | (17,357,635) | — | (17,357,635) | N/A |
| Impairment | (12,962,303) | — | (12,962,303) | N/A |
| Depreciation | (5,068,401) | (2,389,669) | (2,678,733) | 112 % |
| General and administrative expenses | (762,083) | (266,509) | (495,572) | 186 % |
| Financial expenses | — | 1,383 | (1,383) | N/A |
| Segment loss | $(15,154,686) | $(1,781,593) | (13,373,091) | 751 % |
| | | | | |
| Pool revenue per day | 11,343 | 9,965 | 1,379 | 14 % |
| Voyage revenue per day | — | 8,077 | (8,077) | N/A |
| Operating costs per day | 7,619 | 8,107 | (495) | (6 %) |
| | | | | |
| Pool revenue days | 2,840 | 520 | 2,320 | 1238 % |
| Voyage revenue days | — | 167 | (167) | N/A |
| Operating days | 1,460 | 697 | 763 | 262 % |
| | | | | |
| Average number of owned vessels | 4.00 | 1.91 | 2.09 | 260 % |
| Average number of time chartered-in vessels | 3.85 | — | 3.85 | N/A |

***Vessel Revenue.*** Vessel revenue for the year ended December 31, 2011 was $32.2 million, an increase of $23.4 million, or 266% from $8.8 million for the year ended December 31, 2010. This increase was the result of an increase in the overall number of total revenue days to 2,840 days in 2011 from 687 days in 2010. The *STI Conqueror* was delivered in June 2010, the *STI Matador* and *STI Gladiator* were delivered in July 2010 and the *STI Highlander* was delivered in August 2010. These were the only vessels in the Handymax segment during the year ended December 31, 2010. We time chartered-in *Krisjanis Valdemars, Kraslava, Histria Azure*, *Kazdanga*, *Histria Perla* and *Histria Coral* during the year ended December 31, 2011. In addition, pool revenue per day increased 14% for the year ended December 31, 2011 when compared to the year ended December 31, 2010.

***Vessel operating costs.*** Vessel operating costs for the year ended December 31, 2011 were $11.2 million, an increase of $5.6 million, or 99% from the year ended December 31, 2010. This as a result of an increase in the number of operating days to 1,460 from 697 for the years ended December 31, 2011 and 2010, respectively which was driven by the purchase of the *STI Conqueror* in June 2010, the *STI Gladiator* and *STI Matador* in July 2010 and *STI Highlander* in August 2010, all of which operated for a full year during 2011.

***Voyage expenses.*** Voyage expenses for the year ended December 31, 2011 were $25,760, a decrease of $2.3 million, or 99% as a result of the *STI Conqueror*, *STI Gladiator*, *STI Matador* and *STI Highlander* operating in the spot market for 169 days in during the year ended December 31, 2010. No vessels operated in the spot market during the year ended December 31, 2011 though certain nominal voyage charges were incurred.

***Charterhire.*** Charterhire for the year ended December 31, 2011 was $17.4 million, an increase of $17.4 million from the year ended December 31, 2010. The increase was the result of the chartering-in of *Krisjanis Valdemars, Kraslava, Histria Azure*, *Kazdanga, Histria Perla and Histria Coral* during the year ended December 31, 2011. There were no vessels chartered-in during the year ended December 31, 2010.

***Impairment.*** In the year ended December 31, 2011, we recognized an impairment loss of $13.0 million for our owned Handymax. No impairment was recognized in 2010.

***Depreciation.*** Depreciation expense for the year ended December 31, 2011 was $5.0 million, an increase of $2.7 million, or 112% from the year ended December 31, 2010. This increase is a result of an increase in our average number of owned Handymax vessels to 4.00 from 1.91 for the years ended December 31, 2011and 2010, respectively.

***General and administrative expense.*** General and administrative expense for the year ended December 31, 2011 was $0.8 million, an increase of $0.5 million, or 186%, from the year ended December 31, 2010. General and administrative expenses for the Handymax segment primarily consists of commercial management fees and administrative fees to SCM. The increase is the result of an increase in the average number of owned and time chartered-in vessels to 7.85 from 1.91 for the years ended December 31, 2011 and 2010, respectively.

**RESULTS OF OPERATIONS FOR THE Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009**

| | For the year Ended December 31, | | | Percentage |
|---|---|---|---|---|
| | 2010 | 2009 | Change | Change |
| Vessel revenue | $38,797,913 | $27,619,041 | $11,178,872 | 40 % |
| Vessel operating costs | (18,440,492) | (8,562,118 ) | (9,878,374 ) | 115 % |
| Voyage expenses | (2,542,298 ) | — | (2,542,298 ) | 100 % |
| Charterhire | (275,532 ) | (3,072,916 ) | 2,797,384 | (91 %) |
| Impairment | — | (4,511,877 ) | 4,511,877 | N/A |
| Depreciation | (10,178,908) | (6,834,742 ) | (3,344,166 ) | 49 % |
| General and administrative expenses | (6,200,094 ) | (416,908 ) | (5,783,186 ) | 1387 % |
| Financial expenses | (3,230,895 ) | (699,115 ) | (2,531,780 ) | 362 % |
| Net realized and unrealized (loss)/gain on derivative financial instruments | (279,560 ) | 148,035 | (427,595 ) | (289 %) |
| Financial income | 36,534 | 4,929 | 31,605 | 641 % |
| Other expenses, net | (508,766 ) | (256,292 ) | (252,474 ) | 99 % |
| Net (loss)/income | $(2,822,098 ) | $3,418,037 | $(6,240,135 ) | (183 %) |

***Net Loss/income.*** For the year ended December 31, 2010, we incurred a net loss of $2.8 million, compared to net income of $3.4 million for the year ended December 31, 2009. The differences between the two periods are discussed below.

***Vessel revenue*.** Vessel revenue was $38.8 million for the year ended December 31, 2010, an increase of $11.2 million, or 40%, from vessel revenue of $27.6 million for the year ended December 31, 2009. The following table summarizes our revenue:

| | For the year Ended December 31, | | | % | |
|---|---|---|---|---|---|
| | 2010 | 2009 | Change | change | |
| Owned vessels | | | | | |
| Time charter revenue | $19,417,128 | $17,203,709 | $2,213,419 | 13 | % |
| Pool revenue | 15,179,603 | 7,438,726 | 7,740,877 | 104 | % |
| Voyage revenue | 3,916,529 | — | 3,916,529 | N/A | |
| Time chartered-in vessels | | | | | |
| Pool revenue | 284,653 | 2,976,606 | (2,691,953 ) | (90 | %) |
| TOTAL | $38,797,913 | $27,619,041 | $11,178,872 | 40 | % |

The increase in time charter revenue of $2.2 million, or 13%, was the result of an increase in the overall number of days of vessels on time charter from 693 in 2009 to 854 in 2010. This increase was driven by the acquisition of the

*STI Harmony* and *STI Heritage* in June 2010, which were acquired with existing time charter contracts that expired in September and December 2010, respectively. These contracts, along with the time charter contracts for *Noemi* and *Senatore* comprised the time charter revenue for 2010. The *Noemi* and *Senatore*, which were under time charter arrangements beginning in 2007, comprised the time charter revenue for 2009. The time charter contract for the *Senatore* expired in August 2010 and the time charter contract for the *Noemi* is scheduled to expire in December 2011. This increase was offset by a decrease in the daily TCE rates from $24,824 per day in 2009 to $22,729 in 2010.

The increase in pool revenue of $7.7 million, or 104%, was due to an increase in the number of days that vessels were employed in the pools from 486 in 2009 to 1,205 in 2010. In 2009 the *Venice* and *Noemi* (which was under a time charter in arrangement until May 2009) were the only vessels operating in the pool (Scorpio Panamax Tanker Pool). In 2010, nine of our owned vessels and one of our time chartered-in vessels operated in either the Scorpio Aframax, Scorpio Panamax or Scorpio Handymax tanker pools. This increase was offset by an overall decrease in daily TCE rates from $21,425 per day in 2009, to $12,833 per day in 2010.

The increase in voyage revenue is a result of an increase in the number of days that our vessels operated in the spot market from 0 in 2009 to 177 in 2010. During 2010, our newly purchased vessels, *STI Conqueror, STI Gladiator, STI Matador* and *STI Highlander* operated in the spot market prior to their entry in the Scorpio Handymax Tanker Pool for 167 days. Additionally, the *Senatore* operated in the spot market for 10 days subsequent to the termination of its time charter agreement and prior to its entry in the Scorpio Panamax Tanker Pool.

The reduction of pool revenue for time chartered-in vessels of $2.7 million, or 90%, was due to a reduction of time chartered-in operating days from 121 in 2009 to 20 in 2010. In 2009, the *Noemi* was time chartered-in for 121 days, while in 2010, the *BW Zambesi* was time chartered in for 20 days. Both vessels operated in the Scorpio Panamax Tanker Pool.

***Vessel operating costs.*** Vessel operating costs for owned vessels of $18.4 million for the year ended December 31, 2010, increased $9.9 million, or 115%, from $8.6 million for the year ended December 31, 2009. The increase is the result of an additional 1,163 operating days in 2010 which was driven by the purchase of seven additional vessels in 2010.

***Voyage expenses.*** The increase in voyage expenses is a result of an increase in the number of days that our vessels operated in the spot market from 0 in 2009 to 177 in 2010. During 2010, our newly purchased vessels, *STI Conqueror, STI Gladiator, STI Matador* and *STI Highlander* operated in the spot market for 167 days prior to their entry in the Scorpio Handymax Tanker Pool. Additionally, the *Senatore* operated in the spot market for 10 days subsequent to the termination of its time charter agreement and prior to its entry in the Scorpio Panamax Tanker Pool.

***Charterhire.*** Charterhire of $0.3 million for the year ended December 31, 2010 decreased $2.8 million, or 91%, from $3.1 million for the year ended December 31, 2009. The decrease was due to 101 less operating days in the year ended December 31, 2010 and a reduction in the charter-hire rate we paid on our time chartered-in vessels in 2010 compared to 2009. The *BW Zambesi* was chartered in for a total of 20 days in 2010 at a charter-hire rate of $13,850 per day.The *Noemi* was chartered-in by us for 121 days in 2009 at a charter-hire rate of $26,750 per day plus a 50% profit and loss arrangement where we agreed to pay 50% of the vessel's earnings in the pool above the daily charter-hire rate, and we would receive 50% of the vessels earnings in the pool below $26,750 per day. For year ended December 31, 2009, we recorded a reduction in the charterhire expense of $108,000 because the vessel's earnings in the pool were less than $26,750 per day.

***Impairment.*** In the year ended December 31, 2009, we recognized an impairment loss of $4.5 million for *Noemi* and *Senatore*. This impairment loss was triggered by reductions in vessel values, and represented the difference between the carrying value and recoverable amount, being fair value less cost to sell. We determined the fair value of each vessel by adding (i) the charter free market value of the vessel to (ii) the discounted value of each vessel's time charter, which is the difference between each vessel's time charter contracted rate and the market rate for a similar type of vessel with a similar contracted duration. In determining the charter free market value, we took into consideration the estimated valuations provided by an independent ship broker. No impairments were recognized in the year ended December 31, 2010.

***Depreciation.*** Depreciation of $10.2 million for the year ended December 31, 2010 increased $3.3 million, or 49%, from $6.8 million for the year ended December 31, 2009. The increase in depreciation expense was primarily due to

an increase in our average number of owned vessels from 3.00 in 2009 to 6.19 in 2010. This increase was offset by a change in the depreciable life of our owned vessels from 20 to 25 years in the second quarter 2010. The estimated useful life of 25 years is management's best estimate and is also consistent with industry practice for similar vessels. This change in estimate was applied prospectively and the impact on the income statement for the year ended December 31, 2010 resulted in a decrease in depreciation expense and increase in net income of $1.2 million. This change will result in a decrease in depreciation expense of approximately $1.6 million for each year prospectively until the 20 year anniversary date of the vessels impacted by this change. It was also offset by an increase in the estimated residual value due to changes in scrap rates since December 31, 2009. This change resulted in a decrease in depreciation expense of $0.4 million in the year ended December 31, 2010, as compared to the depreciation which would have been recorded using the estimated residual values prevailing at December 31, 2009. See discussion of this change in estimate in Note 1 to the audited consolidated financial statements included in "ITEM 18 Financial Statements".

***General and administrative expense.*** General and administrative expense, which includes the commercial management and administrative fees, of $6.2 million for the year ended December 31, 2010, increased $5.8 million, or 1,387%, from $0.4 million for the year ended December 31, 2009. This increase is a result of incremental costs incurred to operate as a public company. Specifically, general and administrative expenses in 2010 were comprised of salaries of $2.4 million, restricted stock amortization of $1.0 million, legal and professional fees of $0.9 million, commercial management fees of $0.9 million, directors' and officers' insurance and fees of $0.6 million and other related expenses. General and administrative expenses in 2009 were comprised of commercial management fees of $0.3 million and other related expenses.

***Financial expenses.*** Financial expenses were $3.2 million for the year ended December 31, 2010, an increase of $2.5 million or 362% from $0.7 million for year ended December 31, 2009. The year ended December 31, 2010 included interest expense of $2.6 million on the 2010 Revolving Credit Facility and 2005 Credit Facility in addition to $0.5 million of lender commitment fees on the undrawn portion of the 2010 Revolving Credit Facility and $0.1 million of other finance charges. The year ended December 31, 2009 included interest expense on the 2005 Credit Facility.

***Net realized/unrealized (loss) on derivative financial instruments.*** Gain/(loss) on derivatives from our interest rate swap, which consists of realized and unrealized gains and losses, was a realized loss of $0.3 million for the year ended December 31, 2010. For the year ended December 31, 2009, there was an unrealized gain of $1.0 million offset by a realized loss of $0.8 million. The unrealized gains and losses reflect the adjustment of the market value of the swap (the contract rate versus the current market rate). The realized loss is the result of the settlement difference between contracted interest rates and the actual market interest rates (LIBOR). The interest rate swap, which was related to the 2005 Credit Facility was terminated on April 9, 2010.

***Financial income.*** Financial income was $36,534 for the year ended December 31, 2010, an increase of $31,605 or 641% from the $4,929 for the year ended December 31, 2009. The increase was primarily due to an increase in our cash balance during the period.

***Other expense, net.*** Other expense, net was a loss of $508,766 for the year ended December 31, 2010, and a net loss of $256,292 for the year ended December 31, 2009. The increase was primarily driven by expenses incurred for the initial public offering in April 2010.

**Results of operations – segment analysis**

***Panamax/LR1 segment***

The following table summarizes vessel operations for our Panamax segment

| *Panamax/LR1 segment* | For the year Ended December 31, 2010 | 2009 | Change | Percentage Change |
|---|---|---|---|---|
| Vessel revenue | $29,344,505 | $27,619,041 | $1,725,464 | 6 % |
| Vessel operating costs | (12,363,968) | (8,562,118) | 3,801,850 | 44 % |
| Voyage expenses | (253,106) | — | 253,106 | N/A |
| Charterhire | (275,532) | (3,072,916) | (2,797,384) | (91 %) |
| Impairment | — | (4,511,877) | (4,511,877) | (100 %) |
| Depreciation | (7,493,632) | (6,834,742) | 658,890 | 10 % |
| General and administrative expenses | (600,476) | (416,908) | 183,568 | 44 % |
| Financial expenses | (133,708) | (694,186) | (560,478) | (81 %) |
| Realized and unrealized (loss)/gain on derivative financial instruments | (279,560) | 148,035 | 427,595 | (289 %) |
| Other expenses, net | (4,420) | (256,292) | (251,872) | (98 %) |
| Segment profit | $7,940,103 | $3,418,037 | 4,522,066 | 132 % |
| | | | | |
| Time charter revenue per day | 22,729 | 24,824 | (2,095) | (8 %) |
| Pool revenue per day | 15,213 | 21,425 | (6,212) | (29 %) |
| Voyage revenue per day | 2,839 | — | 2,839 | N/A |
| Operating costs per day | 8,189 | 7,819 | 370 | 5 % |
| | | | | |
| Time charter revenue days | 854 | 693 | 161 | 23 % |
| Pool revenue days | 634 | 486 | 148 | 30 % |
| Voyage revenue days | 10 | — | 10 | N/A |
| Operating days | 1,510 | 1,095 | 415 | 38 % |
| | | | | |
| Average number of owned vessels | 4.14 | 3.00 | 1.14 | 38 % |
| Average number of time chartered-in vessels | 0.05 | 0.33 | (0.28) | (85 %) |

***Vessel Revenue.*** The increase in revenue of $1.7 million, or 6%, was the result of an increase in the overall number of total revenue days from 1,179 days in 2009 to 1,499 days in 2010. This was driven by the acquisition of the *STI Harmony* and *STI Heritage* in June 2010 which were acquired with existing time charter contracts that expired in September and December 2010, respectively. These, along with the time charter contracts with the *Noemi* and *Senatore* comprised the time charter revenue for 2010. This is compared to 2009 where only the *Noemi* and *Senatore* were under time charter arrangements beginning in 2007. The time charter contract for the *Senatore* expired in August 2010 and the time charter contract for the *Noemi* is scheduled to expire in December 2011.

The number of days of vessels employed in the pool increased from 486 in 2009 to 634 in 2010. In 2010, four of our owned vessels and one of our time chartered-in vessels operated in the Scorpio Panamax Tanker Pool. In 2009 the *Venice* and *Noemi* (which was under a time charter-in arrangement) were the only vessels operating in the pool (Scorpio Panamax Tanker Pool). The increase was offset by an overall decrease in daily TCE rates from $21,425 per day in 2009, to $15,213 per day in 2010.

***Vessel operating costs.*** Vessel operating costs increased as a result of an increase in the number of operating days from 1,095 in 2009 to 1,510 in 2010 which was driven by the purchase of the *STI Harmony* and *STI Heritage* in the second quarter 2010.

***Voyage expenses.*** The increase in voyage expenses is a result of the *Senatore* operating in the spot market for 10 days subsequent to the termination of its time charter agreement and prior to its entry in the Scorpio Panamax Tanker Pool.

***Charterhire.*** Charterhire expense of $0.3 million for the year ended December 31, 2010 decreased $2.8 million, or 91%, from $3.1 million for the year ended December 31, 2009. The decrease was due to 101 less operating days in the year ended December 31, 2010 and a reduction in the charter-hire rate we paid on our time chartered-in vessels in 2010 compared to 2009. The *BW Zambesi* was chartered in for a total of 20 days in 2010 at a charter-hire rate of $13,850 per day. The *Noemi* was chartered-in by us for 121 days in 2009 at a charter-hire rate of $26,750 per day plus a 50% profit and loss arrangement where we agreed to pay 50% of the vessel's earnings in the pool above the daily charter-hire rate, and we would receive 50% of the vessels earnings in the pool below $26,750 per day. For the year ended December 31, 2009, we recorded a reduction in the charterhire expense of $108,000 because the vessel's earnings in the pool were less than $26,750 per day.

***Impairment.*** In the year ended December 31, 2009, we recognized an impairment loss of $4.5 million for *Noemi* and *Senatore,* both Panamax vessels. No impairment was recognized in 2010.

***Depreciation.*** Depreciation and amortization expense of $7.5 million for the year ended December 31, 2010, increased $0.7 million, or 10%, from $6.8 million for the year ended December 31, 2009. The increase in depreciation expense was primarily due to an increase in our average number of owned vessels from 3.00 in 2009 to 4.14 in 2010. This increase was offset by the effect from a change in the depreciable life of our owned vessels from 20 to 25 years, which occurred in the second quarter of 2010, together with the effect of an increase in estimated residual values of our vessels. See discussion of these changes in Note 1 to the audited consolidated financial statements included in "ITEM 18 Financial Statements."

***General and administrative expense.*** General and administrative expense of $0.6 million for the year ended December 31, 2010, increased $0.2 million or 44% from $0.4 million for the year ended December 31, 2009. General and administrative expenses for the Panamax/LR1 segment primarily consist of commercial management fees and administrative fees to SCM. The increase is the result of an increase in the average number of owned vessels from 3.00 in 2009 to 4.14 in 2010. These fees are described in Note 15 to the audited consolidated financial statements in "ITEM 18 Financial Statements".

***Financial expenses.*** Financial expenses were $0.2 million for the year ended December 31, 2010, a decrease of approximately $0.6 million or 81% from $0.7 million for year ended December 31, 2009. Financial expenses for the Panamax/LR1 segment represents interest for the 2005 Credit Facility. Interest expense in 2010 represents only three months of interest as this facility was repaid in April 2010 while 2009 represents interest expense incurred for the entire year.

***Net realized/unrealized (loss) on derivative financial instruments.*** Gain/(loss) on derivatives from our interest rate swap, which consists of realized and unrealized gains and losses, was a realized loss of $0.3 million for the year ended December 31, 2010. For the year ended December 31, 2009, there was an unrealized gain of $1.0 million offset by a realized loss of $0.8 million. The unrealized gains and losses reflect the adjustment of the market value of the swap (the contract rate versus the current market rate). The realized loss is the result of the settlement difference between contracted interest rates and the actual market interest rates (LIBOR). The interest rate swap, which was related to the 2005 Credit Facility, was terminated on April 9, 2010.

***Other expense, net.*** Other expense, net was a loss of $4,420 for the year ended December 31, 2010, and a net loss of $256,292 for the year ended December 31, 2009. The change was primarily driven by expenses incurred in 2009 for the initial public offering in April 2010. IPO related expenses incurred in 2010 were not recorded as part of the Panamax/LR1 segment.

***Aframax/LR2 segment***

On November 2010, we took delivery of the *STI Spirit*, a 113,091 dwt Aframax/LR2 product tanker. From delivery on November 10, 2010 through January 11, 2011, the *STI Spirit* operated in the Scorpio Aframax Tanker Pool, which traded a mix of crude and product tankers. As of March 25, 2011, this vessel joined the Scorpio LR2 Pool, which focuses solely on product tankers. This is the only vessel operating in our Aframax/LR2 segment. We did not have vessels operating in this segment in prior years.

The following table summarizes vessel operations for our Aframax segment.

| *Aframax/LR2 segment* | For the year **Ended December 31,** 2010 |
|---|---|
| Vessel revenue | $ 641,278 |
| Vessel operating costs | (426,788 ) |
| Depreciation | (293,211 ) |
| General and administrative expenses | (14,747 ) |
| Financial income | 778 |
| Segment loss | $ (92,690 ) |
| | |
| Pool revenue per day | 12,460 |
| Operating costs per day | 8,293 |
| | |
| Pool revenue days | 51 |
| Operating days | 51 |
| | |
| Average number of owned vessels | 0.14 |

***Handymax segment***

In June and July 2010 we took delivery of the Handymax vessels *STI Conqueror, STI Gladiator, STI Matador* and *STI Highlander*. These vessels operated in the spot market prior to their entry in the Scorpio Handymax Tanker Pool for a total of 167 days. These vessels currently comprise all of the vessels in our Handymax operating segment. We did not have vessels operating in this segment in prior years.

The following table summarizes vessel operations for our Handymax segment.

| *Handymax segment* | For the year **Ended December 31,** 2010 |
|---|---|
| | |
| Vessel revenue | $ 8,812,130 |
| Vessel operating costs | (5,649,736) |
| Voyage expenses | (2,289,192) |
| Depreciation | (2,389,669) |
| General and administrative expenses | (266,509 ) |
| Financial income | 1,383 |
| Segment loss | $ (1,781,593) |
| | |
| Pool revenue per day | 9,965 |
| Voyage revenue per day | 8,077 |
| Operating costs per day | 8,107 |

| | |
|---|---|
| Pool revenue days | 520 |
| Voyage revenue days | 167 |
| Operating days | 697 |
| | |
| Average number of owned vessels | 1.91 |

**B. Liquidity and Capital Resources**

Our primary source of funds for our short-term and long-term liquidity needs will be the cash flows generated from our vessel operations, which are currently operating in pools or in the spot market, in addition to availability under our 2010 Revolving Credit Facility, our Newbuilding Credit Facility, our 2011 Credit Facility, and from the proceeds from the sale of the *STI Conqueror*, *STI Matador* and *STI Gladiator*. The pools reduce volatility because (i) they aggregate the revenues and expenses of all pool participants and distribute net earnings to the participants based on an agreed upon formula and (ii) some of the vessels in the pool are on time charter. Furthermore, spot charters provide flexibility and allow us to fix vessels at prevailing rates. We believe these cash flows from operations, amounts available under our various credit facilities, and our cash balance will be sufficient to meet our existing liquidity needs for the next 12 months from the date of this annual report.

As of December 31, 2011, our cash balance was $36.8 million, which is down from our cash balance of $68.2 million as of December 31, 2010. Additionally, at December 31, 2011 we had $37.9 million in availability under our 2010 Revolving Credit Facility which was converted from a term loan to a reducing revolving credit facility in July 2011. The decrease in cash balance was due to operating cash outflows, the acquisition of vessels (both second hand and deposits on newbuildings) and bank loan repayments. These outflows were offset by proceeds from our follow-on offerings in May and November 2011 along with drawdowns from our credit facilities.

For the year ended December 31, 2011, our net cash outflow from operating activities was $12.5 million, our net cash outflow from investing activities was $122.6 million and the net cash inflow from financing activities was $103.7 million. For the year ended December 31, 2010, our net cash inflow from operating activities was $4.9 million, our net cash outflow from investing activities was $245.6 million and the net cash inflow from financing activities was $308.4 million.

As of December 31, 2011, our long-term liquidity needs were comprised of our debt repayment obligations for our credit facilities, our obligations for our vessels under construction, and obligations under our eight time charter-in arrangements.

Our credit facilities require us to comply with a number of covenants, including financial covenants related to liquidity, consolidated net worth, minimum interest coverage, maximum leverage ratios, loan to value ratios and collateral maintenance; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA; maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; approvals on changes in the manager of the vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

No vessels are scheduled to be drydocked within the next 12 months.

**Cash Flows**

The table below summarizes our sources and uses of cash for the periods presented:

| | For the year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Condensed Cash Flows | | | |
| Net cash inflow/(outflow) in respect of: | | | |
| Operating activities | $(12,451,163) | $4,906,478 | $9,305,851 |
| Investing activities | (122,573,437) | (245,594,809) | — |
| Financing activities | 103,670,788 | 308,430,737 | (12,468,990) |

**For the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010**

***Cash inflow/(outflow)***

Net cash outflow operating activities was $12.5 million for the year ended December 31, 2011, which was a decrease of $17.4 million from the year ended December 31, 2010. The decrease was primarily attributable to (i) an increase in vessel operating costs of $12.9 million, (ii) an increase in voyage expenses of $4.3 million, (iii) an increase in charterhire expense of $22.5 million, (iv) an increase in general and administrative expenses of $4.4 million

(excluding non-cash items), (v) a net increase in interest expense of $3.8 million, (vi) a net increase in working capital of $11.5 million, (vii) a decrease in receipts from shareholders of $1.9 million, and (viii) an increase in drydock payments of $1.5 million. These decreases were partially offset by (i) an increase in vessel revenue of $43.3 million, (ii) a decrease in other expenses of $0.4 million and (iii) a decrease in interest rate swap termination payments of $1.9 million. .

***Cash outflow from investing activities***

Cash outflow from investing activities was $122.6 million for the year ended December 31, 2011 compared to $245.6 million for the year ended December 31, 2010. Investment activity during the year ended December 31, 2011 was driven by the purchase of the *STI Coral* and *STI Diamond* for an aggregate purchase price of $71.0 million (including a 1% commission paid to Liberty, our related party Administrator (at that time), along with other capitalized costs). Additionally, on June 2, 2011, we entered into agreements with Hyundai for the construction of five newbuilding vessels for approximately $37.4 million each. The vessels are scheduled to be delivered to us between July 2012 and September 2012. On December 21, 2011, we entered into another agreement with Hyundai for the construction of a sixth newbuilding vessel for $36.4 million which is scheduled for delivery in January 2013.

As of December 31, 2011, approximately $51.0 million has been paid as installment payments on all vessels. The following table is a timeline of future expected payments and dates as of December 31, 2011*:

| | | |
|---|---|---|
| Q1 2012 | $18.7 | million |
| Q2 2012 | 18.6 | million |
| Q3 2012 | 110.2 | million |
| Q4 2012 | 3.6 | million |
| Q1 2013 | 21.8 | million |
| | $172.9 | million |

*These are estimates only and are subject to change as construction progresses. The above does not include the seventh newbuilding contract that we entered into on February 17, 2012.

Investment activity during the year ended December 31, 2010 was driven by the purchase of seven product tankers during the period. Two of the tankers, *STI Harmony* and *STI Heritage,* are LR1 ice class 1A sister ships and were acquired for an aggregate purchase price of $92.9 million (including a 1% commission paid to Liberty, a related party), which included $2.3 million related to the value of the existing time charter contracts. Four of the other vessels, *STI Conqueror*, *STI Matador*, *STI Gladiator* and *STI Highlander* are Handymax vessels that were acquired for $100.0 million in aggregate (including a 1% commission paid to Liberty, our related party Administrator). The last vessel, the STI Spirit was acquired for $52.7 million which included $0.1 million related to the value of purchase options on two additional vessels which expired unexercised in September 2011.

***Cash inflow from financing activities***

Cash inflow from financing activities was $103.7 million for the year ended December 31, 2011 compared to $308.4 million for the year ended December 31, 2010. Financing activity during the year ended December 31, 2011 was driven by net proceeds of $68.5 million from the underwritten offering in May 2011, net proceeds of $36.5 million from the underwritten offering in November 2011, borrowings of $35.0 million under the 2011 Credit Facility, borrowings of $27.3 million under the STI Spirit Credit Facility, and borrowings of $53.0 million under the 2010 Revolving Credit Facility offset by payments of $99.0 million into the 2010 Revolving Credit Facility, principal payments on all of our credit facilities of $10.6 million, payment of deferred financing fees of $4.1 million under the 2011 Credit Facility, STI Spirit Credit Facility and the 2010 Revolving Credit Facility along with $2.9 million of costs related to the repurchase of our common shares. Financing activity during the year ended December 31, 2010 was driven by the net proceeds of the initial public offering of $154.8 million and $150.0 million of borrowings under the 2010 Revolving Credit Facility, which were offset by principal payments of $4.8 million under the 2010 Revolving Credit Facility, the repayment of $39.8 million under the 2005 Credit Facility, $2.6 million of costs related to the

repurchase of our common shares and the payment of deferred financing fees of $2.2 million under the 2010 Revolving Credit Facility.

**Cash flows for the year ended December 31, 2010 compared to the year ended December 31, 2009**

***Cash inflow from operating activities***

Net cash inflow from operating activities was $4.9 million for the year ended December 31, 2010, which was a decrease of $4.4 million from the year ended December 31, 2009. The primary reasons for the decrease were (i) an increase in vessel operating expenses of $9.9 million, (ii) an increase in voyage expenses of $2.5 million (iii) an increase in general and administrative expenses of $5.8 million, (iv) an increase in interest expense of $2.5 million, (v) a net increase in other assets and liabilities of $7.5 million and (vii) an interest rate swap termination payment of $1.9 million. These increases were offset by (i) an increase in vessel revenue of $11.2 million, (ii) a decrease in charter hire expense of $2.8 million, (iii) a decrease of realized losses on derivative financial instruments of $0.5 million, (iv) a decrease in drydock payments of $0.6 million, (v) a decrease of shareholder receivables $3.9 million, (vi) a one-time payment to shareholders of $3.2 million in 2009 and (vii) non-cash amortization expense of $3.3 million (relating to the amortization of acquired time charter contracts of $2.3 million and restricted stock amortization of $1.0 million which is included in the change in vessel revenue and general and administrative expenses above).

***Cash outflow from investing activities***

Cash outflow from investing activities was $245.6 million for the year ended December 31, 2010; no cash was used for investing activities in the year ended December 31, 2009. This increase is entirely attributable to the cash payments for the purchase and delivery of three vessels in June 2010, two vessels in July 2010, one vessel in August 2010 and one vessel in November 2010.

Two of the tankers delivered in June 2010 were LR1 ice class 1A sister ships, *STI Harmony* and *STI Heritage*, and were acquired for an aggregate price of $92.9 million (including a 1% commission paid to Liberty, our related party Administrator at that time), which included an estimated $2.3 million related to the value of the existing time charter contracts. The third vessel delivered in June 2010 was the *STI Conqueror*, which is a Handymax ice class 1B ship, and was acquired for $26.3 million (including a 1% commission paid to Liberty, our related party Administrator).

The vessels delivered in July 2010 were the *STI Matador* and *STI Gladiator* which are Handymax vessels and were acquired for an aggregate price of $46.4 million (including a 1% commission paid to Liberty, our related party Administrator).

The vessel delivered in August 2010, the *STI Highlander*, which is a Handymax vessel was acquired for a purchase price of $27.3 million (including a 1% commission paid to Liberty, our related party Administrator).

The vessel acquired in November 2010, the *STI Spirit*, an LR2 Aframax product tanker for a purchase price of $52.7 million (including a 1% commission paid to Liberty, our related party Administrator).

The agreement also included two purchase options with the seller. Each option granted us the right, but not the obligation, to purchase a 2008 built LR1 ice class-1A product tanker (approximately 63,600 dead weight tons) for a price of $45.0 million and these options expired unexercised in September 2011

***Cash inflow /(outflow) from financing activities***

Cash flow from financing activities was an inflow $308.4 million for the year ended December 31, 2010, and an outflow of $12.5 million for the year ended December 31, 2009 representing a $320.9 million increase in cash flow compared to the prior year. This increase was due to the net proceeds of the initial public offering of $154.8 million, proceeds from the issuance of long-term debt under the 2010 Revolving Credit Facility of $150.0 million and net proceeds from the follow-on offering in November 2010 of $53.2 million offset by principal payments on the 2010

Revolving Credit Facility of $4.8 million, the repayment of the 2005 Credit Facility of $39.8 million, payment of deferred financing fees under the 2010 Revolving Credit Facility of $2.2 million and the acquisition of treasury shares of $2.6 million. Cash outflow from financing activities for the year ended December 31, 2009 was attributable to dividends paid of $8.6 million, bank loan repayments of $3.6 million and the payment expenses related to the initial public offering of $0.3 million.

**Long-Term Debt Obligations and Credit Arrangements**

***2005 Credit Facility***

Two of our wholly-owned subsidiaries, Senatore Shipping Company Limited and Noemi Shipping Company Limited, were joint and several borrowers under a loan agreement dated May 17, 2005, or the 2005 Credit Facility, entered into with The Royal Bank of Scotland plc, as lender, which was secured by, among other things, a first preferred mortgage over each of *Senatore* and *Noemi*. The initial amount of the 2005 Credit Facility was $56.0 million and consisted of two tranches, one for each vessel-owning subsidiary. On April 9, 2010, we repaid the outstanding balance of $38.9 million with a portion of the proceeds from our initial public offering.

***2010 Revolving Credit Facility***

On June 2, 2010, we executed a credit facility with Nordea Bank Finland plc, acting through its New York branch, DnB NOR Bank ASA, acting through its New York branch, and Fortis Bank Nederland, for a senior secured term loan facility of up to $150 million. On July 12, 2011, we amended and restated the credit facility to convert it from a term loan to a reducing revolving credit facility. This gave us the ability to pay down and re-borrow from the total available commitments under the loan. The total available commitments will reduce by $4.1 million each quarter, with a lump sum reduction of $76.0 million at the maturity date of June 2, 2015. Our subsidiaries that own vessels that are collateralized by this loan will act as guarantors under the amended credit facility. All terms mentioned are defined in the agreement.

On September 22, 2011 and on December 22, 2011, we amended the interest rate margin and certain financial covenants in the facility.

Drawdowns under the credit facility bear interest as follows: (1) through December 29, 2011, at LIBOR plus an applicable margin of 3.00% per annum when our debt to capitalization (total debt plus equity) ratio is equal to or less than 50% and 3.50% per annum when our debt to capitalization ratio is greater than 50%; (2) from December 30, 2011 through September 30, 2013, at LIBOR plus an applicable margin of 3.50% per annum; and (3) from October 1, 2013 and at all times thereafter, at LIBOR plus an applicable margin of 3.25% per annum when our debt to capitalization (total debt plus equity) ratio is equal to or less than 50% and 3.50% per annum when our debt to capitalization ratio is greater than 50%. A commitment fee equal to 40% of the applicable margin is payable on the unused daily portion of the credit facility. The credit facility matures on June 2, 2015 and can only be used to refinance amounts outstanding from the original loan agreement and for general corporate purposes.

The credit facility requires us to comply with a number of covenants, including financial covenants; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA (Employee Retirement Income Security Act); maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; approval on changes in the Manager of our initial vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

The financial covenants require us to maintain:

- A ratio of debt to capitalization no greater than 0.60 to 1.00.

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Consolidated tangible net worth no less than $150 million plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter beginning on July 1, 2010 and 50% of the value of any new equity issues from July 1, 2010 going forward.

- A ratio of EBITDA to interest expense no less than 1.25 to 1.00 commencing with the fourth fiscal quarter of 2011 until the fourth quarter of 2012, at which point the ratio will increase to: (i) 1.50 to 1.00 for the first quarter of 2013, (ii) 1.75 to 1.00 for the second quarter of 2013 and (iii) 2.00 at all times thereafter. Such ratio shall be calculated quarterly on a trailing four quarter basis. In addition, we are restricted from paying dividends until our EBITDA to interest expense ratio is 2.00 to 1.00 or greater. EBITDA, as defined in the loan agreement, excludes non-cash charges such as impairment.

- Consolidated liquidity (cash, cash equivalents, and availability under the 2010 Revolving Credit Facility) not less than $25 million, of which unrestricted cash and cash equivalents shall be not less than $15.0 million, until the Company owns, directly or indirectly, more than 15 vessels, at which time the amount increases by $750,000 per each additional vessel.

- The aggregate fair market value of the collateral vessels shall at all times be no less than 150% of the then aggregate outstanding principal amount of loans under the credit facility.

In August 2011, we reduced the outstanding balance by $65 million, in September 2011 we drew down $6 million and in December 2011 we reduced the outstanding balance by $34 million and drew down $47 million. The outstanding balance at December 31, 2011 and 2010 was $91.0 million and $145.2 million, respectively. As of December 31, 2011, there were $37.9 million in available borrowings under this facility and we were in compliance with the loan covenants described above.

***STI Spirit Credit Facility***

On March 9, 2011, we executed a credit facility with DVB Bank SE for a senior secured term loan facility of $27.3 million for the *STI Spirit*, which was acquired on November 10, 2010. The credit facility was drawn down on March 17, 2011 and matures on March 17, 2018. On September 28, 2011 and on December 30, 2011, we amended certain financial covenants contained in the credit facility. The loan bears interest at LIBOR plus a margin of 2.75% per annum. The loan is repayable over 28 equal quarterly installments and a lump sum payment at maturity. The quarterly installments commenced three months after the drawdown and were calculated using an 18 year amortization profile. Our subsidiary, STI Spirit Shipping Company Limited, which owns the vessel, is the borrower and Scorpio Tankers Inc. is the guarantor. The credit facility requires us to comply with a number of covenants, including financial covenants; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA (Employee Retirement Income Security Act); maintenance of flag and class of the vessel; restrictions on consolidations, mergers or sales of assets; approval of changes in the Manager of our vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

The financial covenants of the credit facility are described below. On September 28, 2011, we executed an amendment modifying the EBITDA to interest expense financial covenant. On December 30, 2011, we entered into a first amendatory agreement modifying certain other financial covenants.

The financial covenants require us to maintain:

- A ratio of debt to capitalization no greater than 0.60 to 1.00.
- Consolidated tangible net worth no less than $150 million plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter.
- A ratio of EBITDA to interest expense shall be no less than 1.25 to 1.00 for the period commencing with the fourth quarter of 2011 through the fourth quarter of 2012, at which time it will increase to: (i) 1.50 to 1.00 for the first quarter of 2013, (ii) 1.75 to 1.00 for the second quarter of 2013 and (iii) 2.00 to 1.00 at all times thereafter. Such ratio shall be calculated quarterly on a trailing four quarter basis. In addition, we are restricted from paying dividends until our EBITDA to interest expense ratio is 2.00 to 1.00 or greater. EBITDA, as defined in the loan agreement, excludes non-cash charges such as impairment.
- Consolidated liquidity (cash, cash equivalents, and availability under the 2010 Revolving Credit Facility) not less than $25 million, of which unrestricted cash and cash equivalents shall be not less than $15.0 million, until the Company owns, directly or indirectly, more than 15 vessels, at which time the amount increases by $750,000 per each additional vessel.
- An aggregate fair market value of the *STI Spirit* not less than (i) 140% of the then outstanding loan balance if the vessel is operating in a pool or in the spot market or (ii) 130% of the then outstanding loan if the vessel is

on time charter with a duration of at least one year.

As of December 31, 2011, the outstanding balance under this facility was $26.2 million and we were in compliance with the loan covenants described above.

***2011 Credit Facility***

On May 3, 2011, we executed a credit facility with Nordea Bank Finland plc, acting through its New York branch, DnB NOR Bank ASA, acting through its New York branch, and ABN AMRO Bank N.V., for a senior secured term loan facility of up to $150 million. On September 22, 2011 and December 22, 2011 we amended the loan agreement to extend the availability period and we amended the margin and certain financial covenants.

Borrowings under this credit facility are available until May 3, 2013. Drawdowns under the credit facility bear interest as follows: (1) until December 29, 2011, at LIBOR plus an applicable margin of (i) 2.75% per annum when our debt to capitalization (total debt plus equity) ratio is less than 45%, (ii) 3.00% per annum when our debt to capitalization ratio is greater than or equal to 45% but less than or equal to 50% and (iii) 3.25% when our debt to capitalization ratio is greater than 50%; (2) from December 30, 2011 through September 30, 2013, at LIBOR plus an applicable margin of 3.50% per annum and (3) from October 1, 2013 and at all times thereafter, at LIBOR plus an applicable margin of (i) 3.25% per annum when our debt to capitalization (total debt plus equity) ratio is equal to or less than 50% and (ii) 3.50% per annum when our debt to capitalization ratio is greater than 50%. A commitment fee equal to 40% of the applicable margin is payable on the unused daily portion of the credit facility. The credit facility matures on May 3, 2017 and can only be used to finance up to 50% of the cost of future vessel acquisitions, which vessels would be the collateral for the credit facility.

Borrowings for each vessel financed under this facility represent a separate tranche, with repayment terms dependent on the age of the vessel at acquisition. Each tranche under the new credit facility is repayable in equal quarterly installments, with a lump sum payment at maturity, based on a full repayment of such tranche when the vessel to which it relates is sixteen years of age. Our subsidiaries, which may at any time, own one or more of our vessels, will act as guarantors under the credit facility.

The credit facility requires us to comply with a number of covenants, including financial covenants; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA (Employee Retirement Income Security Act); maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; approvals on changes in the Manager of our initial vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

The financial covenants require us to maintain:

- A ratio of debt to capitalization no greater than 0.60 to 1.00.

- Consolidated tangible net worth not less than $150 million plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter from July 1, 2010 going forward and 50% of the value of any new equity issues from July 1, 2010 going forward .

- A ratio of EBITDA to interest expense not less than 1.25 to 1.00 commencing with the fourth fiscal quarter of 2011 until the fourth quarter of 2012, at which point it will increase to: (i) 1.50 to 1.00 for the first quarter of 2013, (ii) 1.75 to 1.00 for the second quarter of 2013 and (iii) 2.00 to 1.00 at all times thereafter. Such ratio shall be calculated quarterly on a trailing four quarter basis. In addition, we are restricted from paying dividends until our EBITDA to interest expense ratio is 2.00 to 1.00 or greater. EBITDA, as defined in the loan agreement, excludes non-cash charges such as impairment.

- Consolidated liquidity (cash, cash equivalents, and availability under the 2010 Revolving Credit Facility) not less than $25 million, of which unrestricted cash and cash equivalents shall be not less than $15.0 million, until the Company owns, directly or indirectly, more than 15 vessels, at which time the amount increases by $750,000 per each additional vessel.

- An aggregate fair market value of the collateral vessels shall at all times be no less than 150% of the then aggregate outstanding principal amount of loans under the credit facility.

As of December 31, 2011, the outstanding balance under this facility was $33.6 million and we were in compliance with the loan covenants described above.

***Newbuilding Credit Facility***

On December 21, 2011, we executed a credit facility agreement with Credit Agricole Corporate and Investment Bank and Skandinaviska Enskilda Banken AB for a senior secured term loan facility of up to $92.0 million. The credit facility may be used only for the partial financing of the pre-delivery and delivery installments of four newbuilding 52,000 DWT MR product tankers that the Company contracted for in June 2011 with Hyundai and which are scheduled for delivery between July and September 2012. The newbuilding vessels will be owned individually by certain of our subsidiaries, who together are the borrowers under this credit facility and Scorpio Tankers Inc. is the guarantor. Borrowings under the credit facility bear interest at LIBOR plus an applicable margin of 2.70% per annum. A commitment fee equal to 1.10% per annum is payable on the unused daily portion of the credit facility.

The facility will be made available in four tranches, one for each vessel, each in the amount of $23.0 million, which is approximately 61% of contracted price for each vessel. Drawdowns under each tranche will be available after the first 39% of the contracted price for each vessel is paid by the Company and subject to certain other conditions precedent. The four vessels will be collateral for the credit facility. Repayment of the tranche relating to the respective vessel will commence after delivery of that vessel in quarterly installments of $375,000, which equates to a repayment profile of 15.33 years, and each tranche is scheduled to mature approximately seven years after delivery of the relevant vessel from the shipyard.

The credit facility requires us to comply with a number of covenants, including financial covenants; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA; maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; approvals on changes in the Manager of our initial vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

The financial covenants require us to maintain:

- A ratio of debt to capitalization no greater than 0.60 to 1.00.
- Consolidated tangible net worth not less than $150 million plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter from July 1, 2010 going forward and 50% of the value of any new equity issues from July 2, 2010 going forward.
- A ratio of EBITDA to interest expense not less than 2.00 to 1.00 commencing with the third fiscal quarter of 2011 until the fourth quarter of 2012, and 2.50 to 1.00 for all times thereafter. Such ratio shall be calculated quarterly on a trailing four quarter basis. EBITDA, as defined in the loan agreement, excludes non-cash charges such as impairment.
- Unrestricted cash and cash equivalents not less than $15.0 million, until the Company owns, directly or indirectly, more than 15 vessels, at which time the amount increases by $750,000 per each additional vessel.
- An aggregate fair market value of the collateral vessels shall at all times not less than 140% (120% if the vessel is subject to acceptable long term employment) of the aggregate principal amount outstanding plus a

pro rata amount of any allocable swap exposure for the credit facility.

There were no borrowings outstanding as of December 31, 2011 and we were in compliance with the loan covenants described above.

***Interest Rate Swaps***

In August 2011, we entered into six interest rate swap agreements with three different banks to manage the interest costs and the risk associated with changing interest rates on our 2011 Credit Facility and 2010 Revolving Credit Facility. The notional amount of the swaps relating to the 2011 Credit Facility is $24 million with an average fixed rate of 1.30% starting on July 2, 2012 and expiring on June 30, 2015. The notional amount of the swaps relating to the 2010 Revolving Credit Facility is $51 million with an average fixed rate of 1.27% starting on July 2, 2012 and expiring on June 2, 2015. Hedge effectiveness is measured quarterly and as of December 31, 2011. All of the interest rate swap agreements qualified for hedge accounting and were deemed to be effective; therefore, any adjustment to the market value of the interest rate swaps appears in other comprehensive (loss) income (within equity, outside of the Profit or Loss statement). The fair market value was a liability of $0.7 million at December 31, 2011.

***Equity***

On April 6, 2010, we closed the issuance of 12,500,000 shares of common stock at $13.00 per share in our initial public offering and received net proceeds of $149.6 million, after deducting underwriters’ discounts and offering expenses.

On April 9, 2010, using a portion of the proceeds of our initial public offering, we repaid in full the outstanding balance of $38.9 million due under the credit facility entered into by our subsidiaries Senatore Shipping Company Limited and Noemi Shipping Company Limited with The Royal Bank of Scotland plc, as lender, in 2005, or the 2005 Credit Facility.

On May 4, 2010, pursuant to the underwriters’ exercise of their over-allotment option that we granted in connection with our initial public offering, we closed the issuance of 450,000 shares of common stock at $13.00 and received $5.2 million, after deducting underwriters’ discounts.

On November 22, 2010, we closed on a follow-on public offering of 4,575,000 shares of common stock at $9.80 per share. After deducting underwriters' discounts and paying offering expenses, the net proceeds were $41.8 million, and 510,204 shares were issued in a concurrent private placement to a member of the Lolli-Ghetti family for total proceeds of $5.0 million. On December 2, 2010, we closed the issuance of 686,250 shares of common stock at $9.80 and received $6.4 million, after deducting underwriters' discounts, when the underwriters in our follow-on public offering fully exercised their over-allotment option.

On May 18, 2011, we closed on a follow-on public offering of 6,000,000 shares of common stock and also closed on the underwriters’ over-allotment option to purchase 900,000 additional common shares at the offering price of $10.50 per share. We received net proceeds of $68.5 million, after deducting underwriters' discounts and offering expenses.

On December 6, 2011, we closed on a follow-on public offering of 7,000,000 shares of common stock at the offering price of $5.50 per share. We received net proceeds of $36.5 million, after deducting underwriters' discounts and estimated offering expenses.

**CAPITAL EXPENDITURES**

**Vessel acquisitions**

In the first half of June 2010, we took delivery of three product tanker vessels that we previously agreed to acquire. *STI Conqueror*, a Handymax ice class 1B ship, was acquired for $26.0 million. This vessel was sold in March 2012 for a selling price of $21.0 million. *STI Harmony* and *STI Heritage*, LR1 ice class 1A sister ships, were acquired for an aggregate price of $92.0 million, which included $2.3 million for the value of the existing time charter contracts.

The value of the time charter contracts was amortized as a reduction to vessel revenue over the remaining life of the time charter contracts. *STI Harmony* and *STI Heritage* entered the Scorpio Panamax Tanker Pool upon the completion of their time charters in September 2010 and December 2010, respectively.

In July 2010, we took delivery of three Handymax tankers, *STI Matador*, *STI Gladiator* and *STI Highlander* for an aggregate price of $73.0 million. These vessels trade in the Scorpio Handymax Tanker Pool. We signed agreements to sell the *STI Gladiator* and *STI Matador* for $16.2 million each in February 2012. These sales are expected to close in April 2012.

In November 2010, we took delivery of an LR2 Aframax product tanker, *STI Spirit*, for which we paid a purchase price of $52.2 million.

Additionally, we capitalized $2.4 million as part of these vessel purchases for the 1% fee of the gross purchase or sale price that we pay our Administrator upon the consummation of any such purchase or sale.

On May 10, 2011, we took delivery of two product tankers, *STI Coral* and *STI Diamond*, for an aggregate purchase price of $70.0 million. The ships were built in 2008 at the STX shipyard in Korea and trade in the spot market. Additionally, we capitalized $0.7 million as part of these vessel purchases for the 1% fee of the gross purchase or sale price that we pay our Administrator upon the consummation of any such purchase or sale.

**Newbuildings with Hyundai Mipo Dockyard Co. Ltd. (“Hyundai”)**

On June 6, 2011, we signed contracts with Hyundai to construct five MR product tankers for approximately $37.4 million each. The vessels are scheduled to be delivered to the Company between July 2012 and September 2012.

On December 21, 2011, we signed a contract with Hyundai to construct an additional MR product tanker for approximately $36.4 million. This vessel is scheduled to be delivered to the Company in January 2013.

We have made payments of $50.4 million on all of these vessels as of December 31, 2011. Furthermore, on December 28, 2011 the keels were laid on the first five newbuilding vessels. We made a related progress payment of $9.4 million in January 2012 which was accrued for at December 31, 2011.

Furthermore, in February 2012, we signed a contract with Hyundai to construct a newbuilding vessel for $36.0 million, which is our seventh MR newbuilding product tanker with Hyundai. The seventh newbuilding is scheduled to be delivered in April 2013. A $3.6 million deposit has been paid to Hyundai as of the date of this report.

Our commitments under all newbuilding vessel agreements, including the seventh newbuilding are as follows as of March 23, 2012:

| | | |
|---|---|---|
| Q2 2012 | $22.2 | million |
| Q3 2012 | 113.8 | million |
| Q4 2012 | 7.2 | million |
| Q1 2013 | 21.8 | million |
| Q2 2013 | 21.6 | million |
| | $186.6 | million |

**Vessel disposals**

In February 2012, we entered into agreements to sell three of our Handymax vessels: the *STI Conqueror* for $21.0 million, the *STI Gladiator* for $16.2 million, and the *STI Matador* for $16.2 million. The sale of the *STI Conqueror* closed on March 20, 2012 and the sales of the *STI Gladiator* and *STI Matador* are expected to close in April 2012. In connection with these sales, the availability of the Company's 2010 Revolving Credit Facility will decrease by approximately $31.0 million.

As part of the sale of all three vessels, the Company will record a $4.0 million loss on disposal in the first quarter of 2012. Additionally, approximately $0.5 million of deferred financing fees attributable to the 2010 Revolving Credit Facility will be written off upon closing of the sale.

**Drydock**

During 2011, we drydocked three of our owned vessels (*Venice*, *STI Harmony*, *STI Highlander*) for an aggregated drydock cost of $2.6 million and a total of approximately 67 off-hire days. The individual vessel drydock costs and off-hire days were as follows:

- *Venice*: $1.2 million and 23 off-hire days;
- *STI Harmony*: $0.6 million and 21 off-hire days;
- *STI Highlander:* $0.8 million and 23 off-hire days; and

As our fleet matures and expands, our drydock expenses will likely increase. Ongoing costs for compliance with environmental regulations and society classification survey costs are a component of our vessel operating costs. We are not currently aware of any regulatory changes or environmental liabilities that we anticipate will have a material impact on our results of operations or financial condition.

**Dividends**

We do not have immediate plans to pay dividends, but we will continue to assess our dividend policy. In the future, our board of directors may determine to pay dividends.

**Share Buy-Back**

On July 9, 2010, the board of directors authorized a share buy-back program of $20 million. As of December 31, 2011, we had repurchased 723,665 shares of our common stock at an average price per share of $7.5981. See ITEM 16.E for further information.

**C. Research and Development, Patents and Licenses, Etc.**

Not applicable.

**D. Trend Information**

See ITEM 4.B “The International Tanker Industry”.

**E. Off-Balance Sheet Arrangements**

As of December 31, 2011, we were committed to make charter-hire payments to third parties for certain chartered-in vessels. These arrangements are accounted for as operating leases.

**F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our total contractual obligations at December 31, 2011:

| | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|
| Bank Loans (1) | $4,245,540 | $19,439,650 | $88,581,582 | $38,577,758 |
| Bank Loan—Interest payments (2) | 6,899,104 | 13,245,702 | 5,559,885 | 1,108,204 |
| Bank Loan - Commitment fees (3) | 2,681,494 | 904,886 | — | — |
| Time charter-in commitments (4) | 21,003,620 | 5,943,250 | | — |
| Technical management fees (5) | 1,573,856 | 460,320 | — | — |
| Commercial management fee s(6) | 37,200 | — | — | — |
| Newbuilding Installments (7) | 151,190,625 | 21,840,000 | — | — |
| Total | $187,631,439 | $61,833,809 | $94,141,467 | $39,685,962 |

(1) Represents principal payments due on our 2010 Revolving Credit Facility, 2011 Credit Facility and STI Spirit Credit Facility based on our outstanding borrowings as of December 31, 2011.

(2) The interest payments in the above schedule were calculated as follows, based on drawings as of December 31, 2011:

- For the 2010 Revolving Credit Facility, we calculated interest expense in the following manner:

  i. We used a fixed interest rate of 1.27% on the notional amount of our interest rate swaps of $51 million during the time period the swap is outstanding (July 1, 2012 through June 2, 2015).

  ii. For all amounts due in excess of the notional amount on our swap arrangements, we used the average of the 3 and 4 year interest swap rates of 0.94% (as published by the US Federal Reserve as of December 30, 2011) plus a margin of 3.50%, which is the margin for the 2010 Revolving Credit Facility. We used the average of the 3 and 4 year interest swap rates because this facility matures on June 2, 2015.

- For the 2011 Credit Facility, we calculated interest expense in the following manner:

  i. We used a fixed interest rate of 1.30% on the notional amount of our interest rate swaps of $24 million during the time period the swap is outstanding (July 1, 2012 through June 30, 2015).

  ii. For all amounts due in excess of the notional amount on our swap arrangements, we the 5 year interest swap rate of 1.25% (as published by the US Federal Reserve as of December 30, 2011) plus a margin of 3.50%, which is the margin for the 2011 Credit Facility. We use the 5 year interest swap rate because this facility matures on May 3, 2017.

- For the STI Spirit Credit Facility, a 7 year interest swap rate of 1.65% (as published by the US Federal Reserve as of December 30, 2011) plus a margin of 2.75%, which is the margin for the STI Spirit Credit Facility. This facility matures on March 17, 2018, hence the use of the 7 year interest swap rate.

(3) A commitment fee equal to 40% of the applicable margin is payable on the unused daily portion of our 2010 Revolving Credit Facility, the 2011 Credit Facility and the Newbuilding Credit Facility. The STI Spirit Credit Facility was fully drawn as of December 31, 2011.

(4) Represents amounts due under our time charter-in arrangements as of December 31, 2011 for the *Kraslava, Krisjanis Valdemars*, *Histria Azure*, *Kazdanga, Histria Perla* and *Histria Coral*.

(5) We pay our technical manager, SSM, $548 per day per owned vessel.

(6) We pay our commercial manager, SCM, $250 per day per owned vessel plus 1.25% of gross revenue for vessels that are not in a pool. This amount represents the estimated minimum commercial management fees for the *Noemi*, which was under a time charter-out contract until December 2011 and whose revenues are contractually committed to until such time. No gross revenue estimate was made for *STI Coral* and *STI Diamond*, which are also not operating in the pools, as these vessels are operating in the spot market where no revenues are guaranteed.

(7) Represents obligations under our agreements with Hyundai for the construction of our first six Newbuilding Vessels, as of December 31, 2011, with the first five scheduled to be delivered to us between July 2012 and September 2012 and the sixth scheduled for January 2013.

**G. Safe Harbor**

See “Cautionary Statement Regarding Forward-Looking Statements” at the beginning of this annual report.

**CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgments and estimates are as follows:

***Revenue recognition***

We currently generate all revenue from time charters, spot voyages, or pools. Revenue recognition for time charters and pools is generally less complex and subjective than voyage charters (spot voyages). Time charters are for a specific period of time at a specific rate per day. For long-term time charters, revenue is recognized on a straight-line basis over the term of the charter. Pool revenues are determined by the pool managers from the total revenues and expenses of the pool and allocated to pool participants using a mechanism set out in the pool agreement.

We generated revenue from spot voyages during the year ended December 31, 2011. Within the shipping industry, there are two methods used to account for spot voyage revenue: (1) ratably over the estimated length of each voyage or (2) completed voyage. The recognition of voyage revenues ratably over the estimated length of each voyage is the most prevalent method of accounting for voyage revenues and the method used by us. Under each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In applying our revenue recognition method, we believe that the discharge-to-discharge basis of calculating voyages more accurately estimates voyage results than the load-to-load basis. Since, at the time of discharge, management generally knows the next load port and expected discharge port, the discharge-to-discharge calculation of spot voyage revenues can be estimated with a greater degree of accuracy.

***Vessel impairment***

We evaluate the carrying amounts of our vessels to determine whether there is any indication that those vessels have suffered an impairment loss. If any such indication exists, the recoverable amount of vessels is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The projection of cash flows related to vessels is complex and requires us to make various estimates including future freight rates, earnings from the vessels and discount rates. All of these items have been historically volatile. As part of our process of assessing the fair value less cost to sell of the vessel, we obtain vessel valuations from leading, independent and internationally recognized ship brokers on an annual basis or when there is an indication that an asset or assets may be impaired. If an indication of impairment is identified, the need for recognizing an impairment loss is assessed by comparing the carrying amount of the vessels to the higher of the fair value less cost to sell and the value in use. Likewise, if there is an indication that an impairment loss recognized in prior periods no longer exists or may have decreased, the need for recognizing an impairment reversal is assessed by comparing the carrying amount of the vessels to the latest estimate of recoverable amount.

At December 31, 2011, we determined fair value less estimated costs to sell for our vessels, taking into consideration three independent broker valuations for each vessel and adjusting for estimated disposal costs. Our estimate of fair value less costs to sell was then compared to each vessel's respective carrying amount. The fair value less estimated costs to sell were lower than the carrying amount for all vessels indicating that an impairment might exist. We then performed a value in use calculation where we estimated each vessel's future cash flows based on a combination of the latest forecast time charter rates for the next three years, a steady growth in freight rates in each period thereafter which is based management's long-term view of the market, and our best estimate of vessel operating expenses and drydock costs. These cash flows were then discounted to their present value, using a discount rate based on our current borrowing rates adjusted for certain credit risks.

The value in use calculations for all vessels were less than the fair value less estimated costs to sell and accordingly, the recoverable amount of all vessels was determined to be its fair value less costs to sell. As a result, we recorded an impairment loss of $66.6 million to adjust the carrying amounts of our vessels to their fair value less estimated selling costs.

***Vessel lives and residual value***

The carrying value of each of our vessels represents its original cost at the time it was delivered or purchased less depreciation. We depreciate our vessels to their residual value on a straight-line basis over their estimated useful lives. Effective April 1, 2010, we revised the estimated useful life of our vessels from 20 years to 25 years from the date of initial delivery from the shipyard. The estimated useful life of 25 years is management's best estimate and is also consistent with industry practice for similar vessels. The residual value is estimated as the lightweight tonnage of each vessel multiplied by a forecast scrap value per ton. The scrap value per ton is estimated taking into consideration the historical four year scrap market rate average at the balance sheet date. This calculation is updated annually at December 31.

An increase in the estimated useful life of a vessel or in its scrap value would have the effect of decreasing the annual depreciation charge and extending it into later periods. A decrease in the useful life of a vessel or scrap value would have the effect of increasing the annual depreciation charge.

When regulations place significant limitations over the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted to end at the date such regulations become effective. The estimated salvage value of the vessels may not represent the fair market value at any one time since market prices of scrap values tend to fluctuate.

***Deferred drydock cost***

We recognize drydock costs as a separate component of the vessels' carrying amounts and amortize the drydock cost on a straight-line basis over the estimated period until the next drydock. We use judgment when estimating the period between drydocks performed, which can result in adjustments to the estimated amortization of the drydock expense. If the vessel is disposed of before the next drydock, the remaining balance of the deferred drydock is written-off and forms part of the gain or loss recognized upon disposal of vessels in the period when contracted. We expect that our vessels will be required to be drydocked approximately every 30 to 60 months for major repairs and maintenance that cannot be performed while the vessels are operating. Costs capitalized as part of the drydock include actual costs incurred at the drydock yard and parts and supplies used in making such repairs. We only include in deferred drydocking costs those direct costs that are incurred as part of the drydocking to meet regulatory requirements, or are expenditures that add economic life to the vessel, increase the vessel's earnings capacity or improve the vessel's efficiency. Direct costs include shipyard costs as well as the costs of placing the vessel in the shipyard. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

Set forth below are the names, ages and positions of our directors and executive officers. Our board of directors is elected annually, and each director elected holds office for a three-year term or until his successor shall have been duly elected and qualified, except in the event of his death, resignation, removal or the earlier termination of his term

of office. The term of office of each director is as follows: Two will serve for a term expiring at the 2012 annual meeting of shareholders, one will serve for a term expiring at the 2013 annual meeting of shareholders, and two will serve for a term expiring at the 2014 annual meeting of the shareholders. Officers are elected from time to time by vote of our board of directors and hold office until a successor is elected. The business address for each director and executive officer is the address of our principal executive office which is Scorpio Tankers Inc., 9, Boulevard Charles III, Monaco 98000.

Messrs. Lauro and Bugbee, our Chief Executive Officer and President, respectively, participate in business activities not associated with the Company. As a result, Messrs. Lauro and Bugbee may devote less time to the Company than if they were not engaged in other business activities and may owe fiduciary duties to the shareholders of both the Company as well as shareholders of other companies which they may be affiliated, including other Scorpio Group companies. This may create conflicts of interest in matters involving or affecting the Company and its customers and it is not certain that any of these conflicts of interest will be resolved in our favor. While there will be no formal requirements or guidelines for the allocation of Messrs. Lauro's and Bugbee's time between our business and the business of members of the Scorpio Group, Messrs. Lauro's and Bugbee's performance of their duties will be subject to the ongoing oversight of our board of directors.

| Name | Age | Position |
|---|---|---|
| Emanuele A. Lauro | 33 | Chairman, Class I Director, and Chief Executive Officer |
| Robert Bugbee | 51 | President and Class II Director |
| Brian Lee | 45 | Chief Financial Officer |
| Cameron Mackey | 43 | Chief Operating Officer |
| Luca Forgione | 35 | General Counsel |
| Sergio Gianfranchi | 67 | Vice President, Vessel Operations |
| Alexandre Albertini | 35 | Class III Director |
| Ademaro Lanzara | 68 | Class I Director |
| Donald C. Trauscht | 77 | Class II Director |

Biographical information with respect to each of our directors and executive officers is set forth below.

Emanuele A. Lauro, *Chairman & Chief Executive Officer*

Emanuele A. Lauro, our founder, Chairman and Chief Executive Officer, joined Scorpio Group in 2003 and has continued to serve there in a senior management position since 2004. Under Mr. Lauro's leadership, Scorpio Group has grown from an owner of three vessels in 2003 to an operator or manager of approximately 66 vessels in 2012. Over the course of the last six years, Mr. Lauro has founded and developed the Scorpio Aframax Tanker Pool, Scorpio LR2 Pool, Scorpio Panamax Tanker Pool and the Scorpio Handymax Tanker Pool. He also founded Scorpio Logistics in May 2007**,** a company within the Scorpio Group which owns and operates specialized assets engaged in coal transshipment in Indonesia and which engages in strategic investments in coastal shipping and port development in India. Furthermore, Mr. Lauro formed a joint venture with Koenig &cie., Scorship Navigation, in August 2005 which engages in the identification, placement, and management of certain international shipping investments on behalf of German investors. Mr. Lauro has a degree in international business from the European Business School, London, and he has served as the Vice President of the Chamber of Shipping of Monaco since 2006.

Robert Bugbee, *President and Director*

Robert Bugbee, our President, has more than 25 years of experience in the shipping industry. He joined Scorpio Group in February 2009 and has continued to serve there in senior management. Prior to joining Scorpio Group, Mr. Bugbee was a partner at Ospraie Management LLP between 2007 and 2008, a company which advises and invests in commodities and basic industry. From 1995 to 2007, Mr. Bugbee was employed at OMI Corporation, or OMI, a NYSE-listed tanker company sold in 2007. While at OMI, Mr. Bugbee most recently served as President from January 2002 until the sale of the company, and he previously served as Executive Vice President since January 2001, Chief Operating Officer since March 2000 and Senior Vice President of OMI from August 1995 to June 1998. Mr. Bugbee

joined OMI in February 1993. Prior to this, he was employed by Gotaas-Larsen Shipping Corporation since 1984. During this time he took a two year sabbatical from 1987 for the M.I.B. Programme at the Norwegian School for Economics and Business administration in Bergen. He has a Fellowship from the International Shipbrokers Association and a B.A. (Honors) from London University.

Brian Lee, *Chief Financial Officer*

Brian Lee, our Chief Financial Officer, joined Scorpio Group in April 2009. In June 2009, he became the Scorpio Group's Controller. He has been employed in the shipping industry since 1998. Prior to joining Scorpio Group, he was the Controller of OMI Corporation from 2001 until the sale of the company in 2007. Mr. Lee has a M.B.A. from the University of Connecticut and has B.S. in Business Administration from the University at Buffalo, State University of New York.

Cameron Mackey, *Chief Operating Officer*

Cameron Mackey, our Chief Operating Officer, joined Scorpio Group in March 2009, where he has served as Chief Operating Officer. Prior to joining Scorpio Group, he was an equity and commodity analyst at Ospraie Management LLC from 2007-2008. Prior to that, he was Senior Vice President of OMI Marine Services LLC from 2004-2007 and in Business Development at OMI Corporation from 2002-2004. He has been employed in the shipping industry since 1994 and, earlier in his career, was employed in unlicensed and licensed positions in the merchant navy, primarily on tankers in the international fleet of Mobil Oil Corporation, where he held the qualification of Master Mariner. He has an M.B.A. from the Sloan School of Management at the Massachusetts Institute of Technology, a B.S. from the Massachusetts Maritime Academy and a B.A. from Princeton University.

Luca Forgione, *General Counsel*

Luca Forgione, our General Counsel, joined Scorpio Group in August 2009 as General Counsel. He is licensed as a lawyer in his native Italy and as a Solicitor of the Supreme Court of England & Wales. Mr. Forgione has eight years of shipping industry experience and has worked in the fields of shipping, offshore logistics, commodity trading and energy since the beginning of his in-house career, most recently with Constellation Energy Commodities Group Ltd. in London, which is part of Constellation Energy Group Inc. listed on the NYSE under "CEG," from 2007 to 2009, and previously with CoeclericiS.p.a. in Milan from 2004 to 2007. He has experience with all aspects of the supply chain of drybulk and energy commodities (upstream and downstream), and has developed considerable understanding of the regulatory and compliance regimes surrounding the trading of physical and financial commodities as well as the owning, managing and chartering of vessels. Mr. Forgione was a Tutor in International Trade Law and Admiralty Law at University College London (U.K.) and more recently a Visiting Lecturer in International Trade Law at King's College (U.K.). He has a Masters Degree in Maritime Law from the University of Southampton (U.K.) and a Law Degree from the University of Genoa (Italy).

Sergio Gianfranchi, *Vice President, Vessel Operations*

Sergio Gianfranchi, our Vice President of Vessel Operations, served as Operations Manager of our technical manager, SSM, at its headquarters in Monaco from 2002 to 2004. He has been instrumental in launching and operating the Scorpio Group's Panamax, Handymax and Aframax pools during the last five years, and was employed as the Fleet Manager of SCM, the Scorpio Group affiliate that manages the commercial operations of approximately 50 vessels grouped in the three Scorpio Group Pools, from 2007 to 2009. Mr. Gianfranchi is currently employed as the Pool Fleet Manager of SCM. From 1999 to 2001, Mr. Gianfranchi served as the on-site owner's representative of the Scorpio Group affiliates named Doria Shipping, Tristan Shipping, Milan Shipping and Roma Shipping, to survey the construction of their Panamax and Post-Panamax newbuilding tankers being built at the 3Maj Shipyard in Rijeka, Croatia. When Mr. Gianfranchi joined SSM in 1989, he began as vessel master of its OBOs (multipurpose vessels that carry ore, heavy drybulk and oil). Upon obtaining his Master Mariner License in 1972, he served until 1989 as a vessel master with prominent Italian shipping companies, including NAI, which is the largest private Italian shipping company and owned by the Lolli-Ghetti family, and Almare, initially a subsidiary of NAI but later controlled by Finmare, the Italian state shipping financial holding company. In this position he served mostly on OBOs, tankers and drybulk carriers. He graduated from La Spezia Nautical Institute in Italy in 1963.

Alexandre Albertini, *Director*

Alexandre Albertini has more than 10 years of experience in the shipping industry. He has been employed by Marfin Management SAM, a drybulk ship management company, since 1997 and has served as Managing Director there since 2009, working in fields related to crew and human resources, insurance, legal, financial, technical, commercial, and information technology. He is a director of eight drybulk ship owning companies and serves as President of Ant. Topic srl, a vessel and crewing agent based in Italy. The aggregate valuation of the drybulk shipping companies for which Mr. Albertini serves as a Secretary or director is approximately $300 million. In 2008, Mr. Albertini was elected as a member of the Executive Committee of InterManager. He is a founding member of the Chamber of Shipping of Monaco and has served as its Secretary General since 2006. Mr. Albertini also holds various board positions in several other local business and associations.

Ademaro Lanzara, *Director*

Ademaro Lanzara has served as the Chairman of BPV Finance (International) Plc Dublin, a subsidiary of Banca Popolare di Vicenza, Italy, since 2008. He is also a director of Istituto dell'Enciclopedia Italiana fondata da Giovanni Treccani Spa, Rome. From 1963 to 2006, Mr. Lanzara held a number of positions with BNL spa Rome, a leading Italian banking group, including acting as the Chairman of the Credit Committee, Chairman of the Finance Committee and Deputy CEO. He also served as Chairman and/or director of a number of BNL controlled banks or financial companies in Europe, the United States and South America. He formerly served as a director of each of the Institute of International Finance Inc. in Washington DC, Compagnie Financiere Edmond de Rothschild Banque, in Paris, France, ABI—Italian Banking Association in Rome, Italy, FITD—Interbank deposit Protection Fund, in Rome, Italy, ICC International Chamber of Commerce Italian section, Rome, Italy Co-Chairman Round Table of Bankers and Small and Medium Enterprises, European Commission, in Brussels, Belgium. Mr. Lanzara has an economics degree (graduated *magna cum laude*) from the University of Naples, a law degree from the University of Naples and completed the Program for Management Development (PMD) at Harvard Business School.

Donald C. Trauscht, *Director*

Donald C. Trauscht has served as the Chairman of BW Capital Corporation, a private investment company, since 1996. From 1967 to 1995, Mr. Trauscht held a number of positions at Borg-Warner Corporation, including Chairman and Chief Executive Officer. While at Borg Warner, Mr. Trauscht supervised an annual capital budget of $250 million and was responsible for risk assessment decisions involving the company's investments. He has participated in acquisitions, divestments, financings, public offerings and other transactions whose combined value is over $30 billion. Mr. Trauscht is a director of Esco Technologies Inc., Hydac International Corporation, Bourns Inc., and Eyes For Learning LLC. He formerly served as a director of Baker Hughes Inc., Cordant Technologies Inc., Blue Bird Corporation, Imo Industries Inc., Mannesmann Capital Corporation, Wynn International Inc., Recon Optical Inc., Global Motorsport Group Inc., OMI Corporation, IES Corporation, and NSK-Warner Ltd. He has served as the Chairman, Lead Director, and Audit Committee, Compensation Committee, and Governance Committee Chairman at numerous public and private companies.

**B. Compensation**

We did not pay any compensation to members of our senior executive officers in 2009. We paid an aggregate compensation of $3.0 million to our senior executive officers in 2010 for the period April 6, 2010 to December 31, 2010. We paid an aggregate compensation of $6.1 million to our senior executive officers in 2011. Executive management remuneration was as follows during these periods:

| | For the year ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Short-term employee benefits (salaries) | $2,874,864 | $2,059,907 |
| Share-based compensation [(1)] | 3,189,170 | 922,123 |
| Total | 6,064,034 | 2,982,030 |

(1) Represents restricted stock issued under the 2010 Equity Incentive Plan. See Note 14 in the consolidated financial statements for further description.

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Each of our non-employee directors receive cash compensation in the aggregate amount of $45,000 annually, plus an additional fee of $5,000 for each committee on which a director serves plus an additional fee of $15,000 for each committee for which a director serves as Chairman, per year, plus an additional fee of $20,000 to the lead independent director, plus reimbursements for actual expenses incurred while acting in their capacity as a director. We paid an aggregate compensation of $0.4 million to our directors in 2011. Our officers and directors are eligible to receive awards under our equity incentive plan which is described below under "—2010 Equity Incentive Plan."

We believe that it is important to align the interests of our directors and management with that of our shareholders. In this regard, we have determined that it will generally be beneficial to us and to our shareholders for our directors and management to have a stake in our long-term performance. We expect to have a meaningful component of our compensation package for our directors and management consist of equity interests in the Company in order to provide them on an on-going basis with a meaningful percentage of ownership in the Company.

We do not have a retirement plan for our officers or directors.

**2010 Equity Incentive Plan**

We have adopted an equity incentive plan, which we refer to as the plan, under which directors, officers, employees, consultants and service providers of us and our subsidiaries and affiliates are eligible to receive incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and unrestricted common stock. We have reserved a total of 1,148,916 common shares for issuance under the plan, subject to adjustment for changes in capitalization as provided in the plan and it is not expected that any additional common shares will be reserved for issuance under our equity incentive plan prior to the third anniversary of the closing of our initial public offering. The plan is administered by our compensation committee. We issued a total of 559,458 restricted shares under the plan to our executive officers in the second quarter of 2010 which will vest in three equal installments on the third, fourth and fifth anniversaries, respectively, of the closing date of the initial public offering, which was April 6, 2010. In the second quarter of 2010, we also issued 9,000 restricted shares to our independent directors, which vested on April 6, 2011. We issued a total of 281,000 restricted shares under the plan to our executive officers in the first quarter of 2011 which will vest ratably in three equal installments on the first, second and third anniversaries, respectively, of the grant date, which was January 31, 2011. In the first quarter of 2011, we also issued 9,000 restricted shares to our independent directors, which vest on January 31, 2012. In the first quarter of 2012, we issued a total of 281,000 restricted shares under the plan to our executive officers which will vest ratably in three equal installments on the first, second and third anniversaries of the grant date, which was January 31, 2012. In the first quarter of 2012, we also issued 9,000 restricted shares to our independent directors, which vest on January 31, 2013.

Under the terms of the plan, stock options and stock appreciation rights granted under the plan will have an exercise price equal to the fair market value of a common share on the date of grant, unless otherwise determined by the plan administrator, but in no event will the exercise price be less than the fair market value of a common share on the date of grant. Options and stock appreciation rights will be exercisable at times and under conditions as determined by the plan administrator, but in no event will they be exercisable later than ten years from the date of grant.

The plan administrator may grant shares of restricted stock and awards of restricted stock units subject to vesting, forfeiture and other terms and conditions as determined by the plan administrator. Following the vesting of a restricted stock unit, the award recipient will be paid an amount equal to the number of vested restricted stock units multiplied by the fair market value of a common share on the date of vesting, which payment may be paid in the form of cash or common shares or a combination of both, as determined by the plan administrator. The plan administrator may grant dividend equivalents with respect to grants of restricted stock units.

Adjustments may be made to outstanding awards in the event of a corporate transaction or change in capitalization or other extraordinary event. In the event of a “change in control” (as defined in the plan), unless otherwise provided by the plan administrator in an award agreement, awards then outstanding will become fully vested and exercisable in full.

Our board of directors may amend or terminate the plan and may amend outstanding awards, provided that no such amendment or termination may be made that would materially impair any rights, or materially increase any obligations, of a grantee under an outstanding award. Shareholder approval of plan amendments will be required under certain circumstances. Unless terminated earlier by our board of directors, the plan will expire ten years from the date the plan is adopted.

**Employment Agreements**

In April 2010, we entered into employment agreements with each of our executives. These employment agreements are in effect for a period of up to two years, and will automatically renew for the same successive employment periods unless terminated in accordance with the terms of such agreements. Pursuant to the terms of their respective employment agreements, our executives are prohibited from disclosing or unlawfully using any of our material confidential information.

Upon a change in control of the Company, the annual bonus provided under the employment agreement becomes a fixed bonus of up to 150% of the executive's base salary. If an executive's employment is terminated within two years of a change in control due to either disability or a reason other than "for cause," he will be entitled to receive upon termination an assurance bonus equal to such fixed bonus and an immediate lump-sum payment in an amount equal to three times the sum of the executive's then current base salary and the assurance bonus, and he will continue to receive all salary, compensation payment and benefits, including additional bonus payments, otherwise due to him, to the extent permitted by applicable law, for the remaining balance of his then-existing employment period. If an executive's employment is terminated for cause or voluntarily by the employee, he shall not be entitled to any salary, benefits or reimbursements beyond those accrued through the date of his termination, unless he voluntarily terminated his employment in connection with certain conditions. Those conditions include a change in control combined with a significant geographic relocation of his office, a material diminution of his duties and responsibilities, and other conditions identified in the employment agreement.

**C. Board Practices**

Our board of directors currently consists of five directors, three of whom have been determined by our board of directors to be independent under the rules of the New York Stock Exchange and the rules and regulations of the SEC. Our board has an Audit Committee, a Nominating Committee and a Compensation Committee, each of which is comprised of our three independent directors, who are Messrs. Alexandre Albertini, Ademaro Lanzara and Donald Trauscht. The Audit Committee, among other things, reviews our external financial reporting, engage our external auditors and oversee our internal audit activities, procedures and the adequacy of our internal controls. In addition, provided that no member of the Audit Committee has a material interest in such transaction, the Audit Committee is responsible for reviewing transactions that we may enter into in the future with other members of the Scorpio Group that our board believes may present potential conflicts of interests between us and the Scorpio Group. The Nominating and Corporate Governance Committee is responsible for recommending to the board of directors nominees for director and directors for appointment to board committees and advising the board with regard to corporate governance practices. The Compensation Committee oversees our equity incentive plan and recommends director and senior employee compensation. Our shareholders may also nominate directors in accordance with procedures set forth in our bylaws.

**D. Employees**

As of December 31, 2011, we had eight employees. The commercial and operational responsibility of the Company was administered by SSM and SCM.

**E. Share Ownership**

The following table sets forth information regarding the share ownership of the our common stock as of the date of this annual report by our directors and officers, including the restricted shares issued to our executive officers and to our independent directors as well as shares purchased in the open market.

| Name | No. of Shares | % Owned |
|---|---|---|
| Emanuele A. Lauro (1) | 540,151 | 1.4% |
| Robert Bugbee (2) | 638,958 | 1.7% |
| Cameron Mackey (3) | 319,246 | 0.8% |
| All other officers and directors individually | * | * |

(1) Includes 312,418 shares of restricted stock from the 2010 Equity Incentive Plan.
(2) Includes 312,418 shares of restricted stock from the 2010 Equity Incentive Plan.
(3) Includes 178,441 shares of restricted stock from the 2010 Equity Incentive Plan.
* The remaining officers and directors individually each own less than 1% of our outstanding shares of common stock.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. Major Shareholders**

The following table sets forth information regarding beneficial ownership of our common stock for owners of more than five percent of our common stock, of which we are aware as of the date of this annual report.

| Name | Number of Shares | Percentage Owned * | |
|---|---|---|---|
| Wellington Management Company, LLP (1) | 5,440,268 | 14.2 | % |
| Kensico Capital Management Corporation, Michael Lowenstein and Thomas J. Coleman (3) | 3,515,150 | 9.2 | % |
| Annalisa Lolli-Ghetti (2) | 2,980,101 | 7.8 | % |
| Robeco Investment Management, Inc. (4) | 2,767,585 | 7.2 | % |
| Allianz Global Investors Capital LLC (5) | 2,331,607 | 6.1 | % |
| Wellington Trust Company, NA (6) | 2,286,300 | 6.0 | % |
| QVT Financial LP, QVT Financial GP LLC and QVT Associates GP LLC (7) | 2,091,290 | 5.5 | % |
| Oceanic Hedge Fund, Oceanic Investment Management Limited, Tufton Oceanic (Isle of Man) Limited and Cato Brahde (8) | 1,984,882 | 5.2 | % |
| Robert Bugbee (9) | 540,151 | 1.4 | % |
| Emanuele A. Lauro (9) | 638,958 | 1.7 | % |
| Cameron Mackey (9) | 319,246 | 0.8 | % |
| All other officers and directors individually (9) | * | * | |

*Percentages based on 38,345,394 shares issued and outstanding as of March 23, 2012.

(1) This information is derived from Schedule 13G/A filed with the SEC on February 14, 2012.

(2) This Information is derived from a Schedule 13G/A filed with the SEC on February 14, 2012.

(3) This Information is derived from a Schedule 13G/A filed with the SEC on February 13, 2012.

(4) This Information is derived from a Schedule 13G/A filed with the SEC on February 6, 2012.

(5) This Information is derived from a Schedule 13G/A filed with the SEC on February 13, 2012.

(6) This information is derived from a Schedule 13G/A filed with the SEC on February 14, 2012.

(7) This information is derived from a Schedule 13G/A filed with the SEC on December 27, 2011.

(8) This information was derived from the Schedule 13G filed with the SEC on December 21, 2011.

(9) Includes shares of restricted stock issued pursuant to our 2010 Equity Incentive Plan.

* The remaining officers and directors individually each own less than 1% of our outstanding shares of common stock.

**B. Related Party Transactions**

**Administrative Services Agreement**

Liberty Holding Company Ltd., or Liberty, is a Scorpio Group affiliate which provided us with administrative services pursuant to an administrative services agreement until March 13, 2012 when the administrative services agreement was assigned to SSH, a company controlled by the Lolli-Ghetti family pursuant to a novation agreement to which we were a party. The effective date of the novation was November 9, 2009, the date that we first entered into the agreement with Liberty. The administrative services provided under the agreement primarily include accounting, legal compliance, financial, information technology services, and the provision of administrative staff and office space. SSH also arranges vessel sales and purchases for us. Further, pursuant to our administrative services agreement, SSH has agreed that it will not directly own product or crude tankers ranging in size from 35,000 dwt to 200,000 dwt. We expect that SSH will sub-contract many of its responsibilities to other entities within the Scorpio Group.

We reimburse SSH for the reasonable direct or indirect expenses it incurs in providing us with the administrative services described above. We also pay SSH a fee for arranging vessel purchases and sales for us equal to 1% of the gross purchase or sale price, payable upon the consummation of any such purchase or sale. We believe this 1% fee on purchases and sales is customary in the tanker industry.

**Commercial and Technical Management Agreements**

As our commercial and technical managers, SCM and SSM provide us with commercial and technical services pursuant to their respective commercial and technical management agreements with us. We expect to enter into similar agreements with respect to each vessel we acquire going forward. Commercial management services include securing employment, on both spot market and time charters, for our vessels. When we employ a vessel on the spot charter market, we generally place such vessel in a tanker pool managed by our commercial manager that pertains to that vessel's size class. Technical management services include day-to-day vessel operation, performing general maintenance, monitoring regulatory and classification society compliance, customer vetting procedures, supervising the maintenance and general efficiency of vessels, arranging the hiring of qualified officers and crew, arranging and supervising drydocking and repairs, purchasing supplies, spare parts and new equipment for vessels, appointing supervisors and technical consultants and providing technical support. We pay our managers fees for these services and reimburse our managers for the reasonable direct or indirect expenses they incur in providing us with these services.

We pay management fees to our commercial manager, SCM, a related party within the Scorpio Group. In the years ended December 31, 2009 certain of the expenses incurred for commercial management services were under management agreements with other Scorpio Group entities, which were also related parties. Since agreements with related parties are by definition not at arm's length, the expenses incurred under these agreements may have been different than the historical costs incurred if the subsidiaries had operated as unaffiliated entities during prior periods. Our estimates of any differences between historical expenses and the expenses that may have been incurred had the subsidiaries been stand-alone entities have been disclosed in the notes to the historical combined financial statements included elsewhere in this filing. In December 2009, we entered into new commercial management agreements with SCM for each of our vessels, each for a period of three years and which may be terminated upon two years' notice. Pursuant to these agreements, since December 1, 2009, we pay SCM as our commercial manager a fee of $250 per vessel per day for each post-Panamax/LR1/LR2 vessels and $300 per vessel per day for each Handymax and MR vessel, plus a 1.25% commission per charter fixture when SCM provides commercial management services for vessels that are not in any of the Scorpio Group Pools. The Scorpio Aframax Tanker Pool, Scorpio LR2 Pool, Scorpio Panamax Tanker Pool and Scorpio Handymax Tanker Pool participants collectively pay SCM's agent fee of $250 per vessel per day, with respect to post-Panamax/LR1/LR2 vessels, or $300 per vessel per day, with respect to Handymax vessels, plus a 1.25% commission per charter fixture. These are the same fees that SCM charges other vessels in these

pools, including third party owned vessels.

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Additionally, we pay our technical manager, SSM, also a related party within the Scorpio Group, $548 per vessel per day to provide technical management services for each of our vessels. New technical services agreements were signed for each of our vessels in December 2009 at rates similar to the rates under the previous agreements, which were the rates that SSM charged to third parties at the time the agreement was signed.

***Tanker pools***

To increase vessel utilization and thereby revenues, we participate in commercial pools with other shipowners of similar modern, well-maintained vessels. By operating a large number of vessels as an integrated transportation system, commercial pools offer customers greater flexibility and a higher level of service while achieving scheduling efficiencies. Pools employ experienced commercial charterers and operators who have close working relationships with customers and brokers, while technical management is performed by each shipowner. The managers of the pools negotiate charters with customers primarily in the spot market. The size and scope of these pools enable them to enhance utilization rates for pool vessels by securing backhaul voyages and COAs, thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market while providing a higher level of service offerings to customers. When we employ a vessel in the spot charter market, we generally place such vessel in a tanker pool managed by our commercial manager that pertains to that vessel's size class. The earnings allocated to vessels (charterhire expense for the pool) are aggregated and divided on the basis of a weighted scale, or Pool Points, which reflect comparative voyage results on hypothetical benchmark routes. The Pool Point system generally favors those vessels with greater cargo-carrying capacity and those with better fuel consumption. Pool Points are also awarded to vessels capable of carrying clean products and to vessels capable of trading in certain ice conditions. We currently participate in three pools: the Scorpio LR2 Tanker Pool, the Scorpio Panamax Tanker Pool and the Scorpio Handymax Tanker Pool.

SCM is responsible for the commercial management of participating vessels in the pools, including the marketing, chartering, operating and bunker (fuel oil) purchases of the vessels. The Scorpio LR2 Pool is controlled by Scorpio LR2 Pool Ltd., the Scorpio Panamax Tanker Pool is controlled by Scorpio Panamax Tanker Pool Ltd., or SPTP and the Scorpio Handymax Tanker Pool is controlled by Scorpio Handymax Tanker Pool Ltd., or SHTP. Our founder, Chairman and Chief Executive Officer is a member of the Lolli-Ghetti family which owns all issued and outstanding stock of SLR2P, SPTP and SHTP. Taking into account the recommendations of a pool committee and a technical committee, each of which is comprised of representatives of each pool participant, SLR2P, SPTP and SHTP set the respective pool policies and issues directives to the pool participants and SCM. The pool participants remain responsible for all other costs including the financing, insurance, manning and technical management of their vessels. The earnings of all of the vessels are aggregated and divided according to the relative performance capabilities of the vessel and the actual earning days each vessel is available.

**Our Relationship with Scorpio Group and its Affiliates**

We were incorporated in the Republic of The Marshall Islands on July 1, 2009 by Simon Financial Limited, or Simon, which is owned by the Lolli-Ghetti family and manages their shipping interests. On October 1, 2009, (i) Simon, through its then wholly owned subsidiary, Liberty Holding Company Ltd., or Liberty, transferred three operating subsidiary companies to us that owned the vessels in our initial fleet consisting of the *Venice*, *Senatore* and *Noemi*; (ii) Liberty Holding Company Ltd., or Liberty, became a wholly-owned subsidiary and operating vehicle of Simon; (iii) Scorpio Owning Holding Ltd. became a wholly-owned subsidiary of Liberty; and (iv) we became a wholly-owned subsidiary of Scorpio Owning Holding Ltd. Liberty's operations include chartered-in vessels, and interests in joint ventures and investments. Scorpio Group does not have an ownership interest in any tanker vessels other than our tanker vessels, and will preclude itself from directly owning product or crude tankers ranging in size from 35,000 dwt to 200,000 dwt.

Our board of directors consists of five individuals, three of whom are independent directors. The three independent directors form the board's Audit Committee and, pursuant to the Audit Committee charter, are required to review all potential conflicts of interest between us and Scorpio Group. The two non-independent directors, Emanuele Lauro and Robert Bugbee, serve in senior management positions within the Scorpio Group which is also our Administrator, and is an affiliate of the Scorpio Group.

The Scorpio Group is owned and controlled by the Lolli-Ghetti family, of which Mr. Lauro is a member. Mr. Lauro is considered to be the acting Chief Executive Officer and Mr. Bugbee is considered to be the acting President of the Scorpio Group. Mr. Lauro is employed by Scorpio Commercial Management and Mr. Bugbee is employed by Scorpio USA, and both entities are affiliates within the Scorpio Group. Mr. Bugbee and Mr. Mackey have a stock ownership interest of 1.75 and 1.25%, respectively, in Liberty, an affiliate of the Scorpio Group, but neither Mr. Lauro, Mr. Bugbee nor Mr. Mackey have any other ownership interests in the Scorpio Group. We are not affiliated with any other entities in the shipping industry other than those that are members of the Scorpio Group.

In January 2011, Scorpio Owning Holding Ltd. distributed its shares in Scorpio Tankers Inc. (via a dividend) to the shareholders of Liberty, which is 97% owned by Lolli-Ghetti family, of which our CEO and Chairman is a member.

SCM and SSM, which as noted previously are affiliates of Scorpio Group, provide commercial and technical management services to us pursuant to our commercial and technical management agreements. Under the commercial management agreement, we pay SCM a fee of 1.25% commission per charter fixture plus $250 per vessel per day for Panamax, LRI, and LR2 vessels and $300 per vessel per day for Handymax and MR vessels for vessels that do not participate in one of the Scorpio Group Pools. For vessels operating in a Scorpio Group Pool, we pay a fee of 1.25% commission per charter fixture plus $250 per vessel per day for Panamax, LRI, and LR2 vessels and $300 per vessel per day for Handymax vessels. We pay SSM $548 per vessel per day to provide technical management services for each of our vessels. We have entered into separate commercial and technical management agreements for each of our vessels and expect to enter into similar agreements with respect to each vessel that we acquire going forward. The commercial and technical management agreements with SCM and SSM are each for a period of three years, and may be terminated upon two years' notice.

We will reimburse SSH, which as noted previously is our Administrator and also an affiliate of the Scorpio Group, for the reasonable direct or indirect expenses it incurs in providing us with the administrative services described above. We will also pay our Administrator a fee for arranging vessel purchases and sales for us equal to 1% of the gross purchase or sale price, payable upon the consummation of any such purchase or sale. We believe this 1% fee on purchases and sales is customary in the tanker industry.

Pursuant to our administrative services agreement, SSH, on behalf of itself and other members of the Scorpio Group, has agreed that it will not directly own product or crude tankers ranging in size from 35,000 dwt to 200,000 dwt. We have no other agreements with SCM, SSM, our Administrator, or any other party providing for a resolution of potential conflicts in our favor.

For further details about our relationship and agreements with the Scorpio Group and its affiliates, please read "Related Party Transactions" and "Management—Board of Directors and Committees."

**Related Party Payable and Shareholder Payable**

Prior to November 18, 2009, we had a shareholder payable of $18.9 million and a related party payable to a subsidiary of Liberty of $27.4 million. On November 30, 2009, these payables were converted to equity as a capital contribution with no shares being exchanged in this transaction.

**Transactions with subsidiaries of Simon**

Transactions with subsidiaries of Simon (herein referred to as Simon subsidiaries) and transactions with entities outside of Simon but controlled by the Lolli-Ghetti family (herein referred to as related party affiliates) in the consolidated statements of profit or loss and balance sheet are as follows:

| | For the year ended December 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Pool revenue(1) | | | |
| Scorpio Panamax Tanker Pool Limited | 22,593,663 | 9,645,173 | 10,415,332 |
| Scorpio Handymax Tanker Pool Limited | 32,237,901 | 5,177,805 | — |
| Scorpio LR2 Pool Limited | 5,194,689 | — | — |
| Scorpio Aframax Tanker Pool Limited | 170,224 | 641,278 | — |
| Time charter revenue(2) | | | |
| King Dustin | 8,507,042 | 8,700,195 | 8,288,767 |
| Liberty and subsidiaries | — | 4,779,605 | — |
| Vessel operating costs(3) | (2,202,870) | (1,058,699) | (600,000) |
| Commissions(4) | (270,069) | (233,546) | — |
| General and administrative expenses(5) | (1,936,567) | (932,460) | (344,162) |
| Other(6) | — | (130,602) | — |

(1) These transactions relate to revenue earned in the Scorpio Panamax, Scorpio LR2, Scorpio Aframax and Scorpio Handymax Tanker Pools (the Pools). The Pools are operated by Scorpio Panamax Tanker Pool Limited, Scorpio LR2 Tanker Pool Limited, Scorpio Aframax Pool Limited, and Scorpio Handymax Tanker Pool Limited.

(2) The revenue earned was for *Noemi's* time charter with King Dustin (which is 50% jointly controlled by a Simon subsidiary). In 2010, the *STI Harmony* and *STI Heritage* were on a time charter with Liberty, a Simon subsidiary.

(3) These transactions represent technical management fees charged by SSM, a related party affiliate, and included in the vessel operating costs in the consolidated profit or loss statement. We believe our technical management fees for the years ended December 31, 2011, 2010 and 2009 were at market rates because they were the same rates charged to other vessels managed by SSM. Each vessel pays $548 per day for technical management, which is, as noted, consistent with that charged to third parties by SSM.

(4) These transactions represent the expense due to SCM for commissions related to the commercial management services provided by SCM under the Commercial Management Agreement (see description below). Each of the vessels pays a commission of 1.25% of their revenue when not in the Pools. When our vessels are in the Pools, SCM, the pool manager, charges all vessels in the Pools (including third party participants) a commission of 1.25% of their revenue and $250 per day for Panamax/LR1 and Aframax/LR2 vessels and $300 per day for Handymax vessels. We believe that the commercial management agreement represents a market rate for such services.

There were no charges related to these services for the year ended December 31, 2009. We estimate that the commissions on its fees for years ended December 31, 2009 would have been $215,046 and would have decreased net income for the period by the same amount if we operated as an unaffiliated entity. Our estimate is based upon the rates charged by SCM to third party participants in the pools for 2009.

(5) We pay our administrator (Liberty) a fixed monthly fee calculated at cost with no profit for providing us with administrative services, and reimburse it for the reasonable direct or indirect expenses it incurs in providing us with such services. SSM provided administrative services to us under this agreement until September 30, 2010. From October 1, 2010, SCM has provided us administrative services under this agreement. The administrative fee included services provided to us for accounting, administrative, information technology and management.

Our Commercial Management Agreement with SCM includes a daily flat fee charged payable to SCM for the vessels that are not in one of the pools managed by SCM. The flat fee is $250 per day for Panamaxes/LR1 and Aframax/LR2 vessels and $300 per day for Handymax and MR vessels. The flat fee is the same rate charged by SCM for vessels in the pools managed by SCM.

- The expense for the year ended December 31, 2011 of $1,936,567 included the flat fee of $268,331 charged by SCM and administrative fees of $1,668,236 charged by Liberty and are both included in general and administrative expenses in the consolidated profit or loss statement.

- The expense for the year ended December 31, 2010 of $932,460 included the flat fee of $203,405 charged by SCM and administrative fees of $729,055 charged by Liberty and are both included in general and administrative expenses in the consolidated profit or loss statement.

- The expense for the year ended December 31, 2009 of $344,162 included fees of $70,418 charged by SCM and $273,744 charged by SSM for administrative services under the previous administrative agreement. The fees charged by SCM for the year ended December 31, 2009 were not at market rates. We estimate the fees charged by SCM for the year ended December 31, 2009 would have been $182,500 and would have decreased net income by $112,082.

(6) In accordance with our Administrative Services Agreement with Liberty, we have to reimburse Liberty for any direct expenses. These transactions represent reimbursements of $130,602 to Liberty for the year ended December 31, 2010 for expenses related to the registration of the existing shares in the initial public offering which closed on April 6, 2010. In addition, $344,490 related to expenses for the registration of the shares in the initial public offering were recorded as an offset against the proceeds from the offering. The cash payment was made in 2010.

- Furthermore, the Administrative Services Agreement with Liberty includes a fee for arranging vessel purchases and sales, on our behalf, equal to 1% of the gross purchase or sale price, payable upon the consummation of any such purchase or sale. These fees are capitalized as part of the carrying value of the related vessel. In the year ended December 31, 2011, we paid Liberty an aggregate fee of $700,000 in May 2011 for the purchase of the *STI Coral* and *STI Diamond*. In the year ended December 31, 2010, we paid Liberty an aggregate fee of $2.4 million for the purchases of the *STI Harmony*, *STI Heritage*, *STI Conqueror, STI Matador, STI Gladiator, STI Highlander* and *STI Spirit.*

**Balances with related parties**

We had the following balances with related parties which have been included in the consolidated balance sheets:

| | As of December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Assets: | | |
| Accounts receivable (due from the Pools) | $18,102,105 | $6,767,770 |
| Accounts receivable (SSM) | — | 117 |
| Accounts receivable (SCM) | — | 3,463 |
| Liabilities: | | |
| Accounts payable (owed to the Pools) | 50,120 | 22,349 |
| Accounts payable (SSM) | 8,191 | 101,412 |
| Accounts payable (SCM) | 51,994 | — |

In 2011, the Company also entered into an agreement to reimburse costs to SSM as part of its supervision agreement for newbuilding vessels. No amounts have been charged under this agreement as of December 31, 2011.

**Key management remuneration**

Prior to April 6, 2010, our executive management services were provided by a related party affiliate and included in the management fees described in (5) above. If we were not part of Simon, and had the same ownership structure and a contract for administrative services for the periods up to April 6, 2010, we estimate our executive management remuneration would have been comparable with the executive management remuneration presented within general and administrative expenses in subsequent periods. The table below therefore depicts key management remuneration for the periods April 6, 2010 through December 31, 2010 and the year ended December 31, 2011 as follows:

| | As of December 31, 2011 | 2010 |
|---|---|---|
| Short-term employee benefits (salaries) | $2,874,864 | $2,059,907 |
| Share-based compensation (1) | 3,189,170 | 922,123 |
| Total | 6,064,034 | 2,982,030 |

(1) Represents the amortization of restricted stock issued under our equity incentive plans in June 2010 and January 2011.

There are no post employment benefits.

**C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated Statements and Other Financial Information**

See ITEM 18.

**Legal Proceedings**

To our knowledge, we are not currently a party to any lawsuit that, if adversely determined, would have a material adverse effect on our financial position, results of operations or liquidity. As such, we do not believe that pending legal proceedings, taken as a whole, should have any significant impact on our financial statements. From time to time in the future we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. While we expect that these claims would be covered by our existing insurance policies, those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We have not been involved in any legal proceedings which may have, or have had, a significant effect on our financial position, results of operations or liquidity, nor are we aware of any proceedings that are pending or threatened which may have a significant effect on our financial position, results of operations or liquidity.

**Dividend Policy**

Since our initial public offering closed on April 6, 2010, we have not paid a dividend. We will continue to assess our dividend policy and our board of directors may determine to pay dividends in the future. Depending on prevailing charter market conditions, our operating results and capital requirements and other relevant factors, our board of directors may re-evaluate our dividend policy. In addition, Marshall Islands law generally prohibits the payment of dividends other than from surplus or when a company is insolvent or if the payment of the dividend would render the company insolvent. Any future dividend payments will be subject to determination by our board of directors in its discretion.

**B. Significant Changes**

See ITEM 18 – Financial Statements: Note 24 – Subsequent Events.

## ITEM 9. THE OFFER AND LISTING

Share History and Markets

Since our initial public offering, our shares have traded on the New York Stock Exchange (NYSE) under the symbol STNG. The high and low market prices for our common stock for the periods set forth below were as follows:

| For the Year Ended | High | Low |
|---|---|---|
| December 31, 2010 | $13.01 | $9.50 |
| December 31, 2011 | 12.18 | 4.28 |

| **For the Quarter Ended** | **High** | **Low** |
|---|---|---|
| March 31, 2010 | $12.90 | $12.10 |
| June 30, 2010 | 13.01 | 10.05 |
| September 30, 2010 | 11.92 | 10.04 |
| December 31, 2010 | 11.95 | 9.50 |
| March 31, 2011 | 10.82 | 9.62 |
| June 30, 2011 | 12.18 | 9.25 |
| September 30, 2011 | 10.08 | 4.93 |
| December 31, 2011 | 7.03 | 4.28 |

| **Most Recent Six Months** | **High** | **Low** |
|---|---|---|
| September 2011 | $7.33 | $4.69 |
| October 2011 | 6.70 | 4.69 |
| November 2011 | 7.03 | 5.55 |
| December 2011 | 5.43 | 4.28 |
| January 2012 | 5.93 | 4.93 |
| February 2012 | 6.47 | 5.57 |
| March 2012 | 7.29 | 6.33 |

## ITEM 10. ADDITIONAL INFORMATION

### A. Share Capital

Not applicable

### B. Memorandum and articles of association

Our amended and restated articles of incorporation have been filed as exhibit 3.1 to our Amendment No. 2 to our Registration Statement on Form F-1 (Registration No. 333-164940), filed with the SEC on March 18, 2010. Our amended and restated bylaws are filed as exhibit 1.2 to our Annual Report on Form 20-F filed on June 29, 2010. The information contained in these exhibits is incorporated by reference herein.

Information regarding the rights, preferences and restrictions attaching to each class of the shares is described in the section entitled “Description of Capital Stock” in our Prospectus Supplement on Form 424B5, filed with the SEC on December 5, 2011, as set forth in the accompanying prospectus dated May 10, 2011, which supplements our Registration Statement on Form F-3 (Registration No. 333-173929) with an effective date of May 10, 2011, provided that since the date of that Prospectus Supplement, our total issued and outstanding common shares has increased to 38,345,394 as of the date of this Annual Report.

### C. Material Contracts

Attached as exhibits to this annual report are the contracts we consider to be both material and not entered into in the ordinary course of business. Descriptions are included within ITEM 5.B with respect to our credit facilities, and ITEM 7.B with respect to our related party transactions.

Other than these contracts, we have no other material contracts, other than contracts entered into in the ordinary course of business, to which the Company is a party.

**D. Exchange Controls**

Under Marshall Islands law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to non-resident holders of our common shares.

**E. Taxation**

**Marshall Islands Tax Considerations**

The following are the material Marshall Islands tax consequences of our activities to us and holders of our common shares. We are incorporated in the Marshall Islands. Under current Marshall Islands law, we are not subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments of dividends by us to our shareholders.

**United States Federal Income Tax Considerations**

The following are the material United States federal income tax consequences to us of our activities and to United States Holders and Non-United States Holders, each as defined below, of the ownership of common shares. The following discussion of United States federal income tax matters is based on the United States Internal Revenue Code of 1986, or the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the United States Department of the Treasury, or the Treasury Regulations, all of which are subject to change, possibly with retroactive effect. The discussion below is based, in part, on the description of our business in this Report and assumes that we conduct our business as described herein. References in the following discussion to the "Company," "we," "our" and "us" are to Scorpio Tankers Inc. and its subsidiaries on a consolidated basis.

***United States Federal Income Taxation of Operating Income: In General***

We earn and anticipate that we will continue to earn substantially all our income from the hiring or leasing of vessels for use on a time charter basis, from participation in a pool or from the performance of services directly related to those uses, all of which we refer to as "shipping income."

Unless exempt from United States federal income taxation under the rules of Section 883 of the Code, or Section 883, as discussed below, a foreign corporation such as the Company will be subject to United States federal income taxation on its "shipping income" that is treated as derived from sources within the United States, which we refer to as "United States source shipping income." For United States federal income tax purposes, "United States source shipping income" includes 50% of shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States.

Shipping income attributable to transportation exclusively between non-United States ports will be considered to be 100% derived from sources entirely outside the United States. Shipping income derived from sources outside the United States will not be subject to any United States federal income tax.

Shipping income attributable to transportation exclusively between United States ports is considered to be 100% derived from United States sources. However, we are not permitted by United States law to engage in the transportation of cargoes that produces 100% United States source shipping income.

Unless exempt from tax under Section 883, our gross United States source shipping income would be subject to a 4% tax imposed without allowance for deductions, as described more fully below.

***Exemption of Operating Income from United States Federal Income Taxation***

Under Section 883 and the Treasury Regulations thereunder, a foreign corporation will be exempt from United States federal income taxation on its United States source shipping income if:

(1) it is organized in a "qualified foreign country," which is one that grants an "equivalent exemption" from tax to corporations organized in the United States in respect of each category of shipping income for which exemption is being claimed under Section 883; and

(2) one of the following tests is met:

(A) more than 50% of the value of its shares is beneficially owned, directly or indirectly, by "qualified shareholders," which as defined includes individuals who are "residents" of a qualified foreign country, which we refer to as the "50% Ownership Test" or

(B) its shares are "primarily and regularly traded on an established securities market" in a qualified foreign country or in the United States, to which we refer as the "Publicly-Traded Test".

The Republic of The Marshall Islands, the jurisdiction where we and our ship-owning subsidiaries are incorporated, has been officially recognized by the United States Internal Revenue Service, or the IRS, as a qualified foreign country that grants the requisite "equivalent exemption" from tax in respect of each category of shipping income we earn and currently expect to earn in the future. Therefore, we will be exempt from United States federal income taxation with respect to our United States source shipping income if we satisfy either the 50% Ownership Test or the Publicly-Traded Test.

For our 2011 tax year, we intend to take the position that we satisfy the Publicly-Traded Test and we anticipate that we will continue to satisfy the Publicly-Traded Test for future taxable years. However, as discussed below, this is a factual determination made on an annual basis. We do not currently anticipate a circumstance under which we would be able to satisfy the 50% Ownership Test.

***Publicly-Traded Test***

The Treasury Regulations under Section 883 provide, in pertinent part, that shares of a foreign corporation will be considered to be "primarily traded" on an established securities market in a country if the number of shares of each class of stock that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. Our common shares, which constitute our sole class of issued and outstanding stock, are "primarily traded" on the New York Stock Exchange, or the NYSE.

Under the Treasury Regulations, our common shares will be considered to be "regularly traded" on an established securities market if one or more classes of our stock representing more than 50% of our outstanding stock, by both total combined voting power of all classes of stock entitled to vote and total value, are listed on such market, to which we refer as the "Listing Threshold." Since our common shares are listed on the NYSE, we expect to satisfy the Listing Threshold.

It is further required that with respect to each class of stock relied upon to meet the Listing Threshold, (i) such class of stock is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or one-sixth of the days in a short taxable year, or the "Trading Frequency Test" and (ii) the aggregate number of shares of such class of stock traded on such market during the taxable year is at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year, or the "Trading

Volume Test." The Company currently satisfies and anticipates that it will continue to satisfy the Trading Frequency Test and Trading Volume Test. Even if this were not the case, the Treasury Regulations provide that the Trading Frequency Test and Trading Volume Tests will be deemed satisfied if, as is the case with our common shares, such class of stock is traded on an established securities market in the United States and such class of stock is regularly quoted by dealers making a market in such stock.

Notwithstanding the foregoing, the Treasury Regulations provide, in pertinent part, that a class of stock will not be considered to be "regularly traded" on an established securities market for any taxable year during which 50% or more of the vote and value of the outstanding shares of such class are owned, actually or constructively under specified attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the vote and value of such class of outstanding shares, to which we refer as the "5% Override Rule."

For purposes of being able to determine the persons who actually or constructively own 5% or more of the vote and value of our common shares, or "5% Shareholders," the Treasury Regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the United States Securities and Exchange Commission, or the SEC, as owning 5% or more of our common shares. The Treasury Regulations further provide that an investment company which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Shareholder for such purposes.

In the event the 5% Override Rule is triggered, the Treasury Regulations provide that the 5% Override Rule will nevertheless not apply if we can establish that within the group of 5% Shareholders, there are sufficient qualified shareholders for purposes of Section 883 to preclude non-qualified shareholders in such group from owning 50% or more of our common shares for more than half the number of days during the taxable year. In order to benefit from this exception to the 5% Override Rule, the Company must satisfy certain substantiation requirements in regards to the identity of its 5% Shareholders.

Based on Schedule 13G and Schedule 13D filings with the SEC, the Company believes that the 5% Override Rule may have been triggered for the 2011 taxable year, in which case the Company will not satisfy the Publicly-Traded Test for the 2011 taxable year unless within the group of our 5% Shareholders there were sufficient qualified 5% Shareholders to preclude nonqualified 5% Shareholders from owning 50% or more of our common shares for more than half the number of days during the 2011 taxable year. We believe that, during the 2011 taxable year, there existed sufficient qualified 5% Shareholders for the Company to avail itself of this exception to the 5% Override Rule. The Company intends to take this position on its United Sates federal income tax return for the 2011 taxable year and expects that it will be able to satisfy the substantiation requirements in regards to its 5% Shareholders.

Accordingly, we believe that we currently satisfy the Publicly-Traded Test. However, there are factual circumstances beyond our control that could cause us to lose the benefit of the Section 883 exemption. For example, if we trigger the 5% Override Rule for any future taxable year, there is no assurance that we will have sufficient qualified 5% Shareholders to preclude nonqualified 5% Shareholders from owning 50% or more of our common shares for more than half the number of days during such taxable year, or that we will be able to satisfy the substantiation requirements in regards to our 5% Shareholders.

***United States Federal Income Taxation In Absence of Section 883 Exemption***

If the benefits of Section 883 are unavailable, our United States source shipping income would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions, which we refer to as the "4% gross basis tax regime," to the extent that such income is not considered to be "effectively connected" with the conduct of a United States trade or business, as described below. Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as being United States source shipping income, the maximum effective rate of United States federal income tax on our shipping income would never exceed 2% under the 4% gross basis tax regime.

To the extent our United States source shipping income is considered to be "effectively connected" with the conduct of a United States trade or business, as described below, any such "effectively connected" United States source shipping income, net of applicable deductions, would be subject to United States federal income tax, currently imposed at rates of up to 35%. In addition, we would generally be subject to the 30% "branch profits" tax on earnings effectively

connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of our United States trade or business.

Our United States source shipping income would be considered "effectively connected" with the conduct of a United States trade or business only if:

we have, or are considered to have, a fixed place of business in the United States involved in the earning of United States source shipping income; and

substantially all of our United States source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

We do not currently have, intend to have, or permit circumstances that would result in having, any vessel sailing to or from the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, it is anticipated that none of our United States source shipping income will be "effectively connected" with the conduct of a United States trade or business.

***United States Federal Income Taxation of Gain on Sale of Vessels***

If we qualify for exemption from tax under Section 883 in respect of the shipping income derived from the international operation of our vessels, then gain from the sale of any such vessel should likewise be exempt from United States federal income tax under Section 883. If, however, our shipping income from such vessels does not for whatever reason qualify for exemption under Section 883, then any gain on the sale of a vessel will be subject to United States federal income tax if such sale occurs in the United States. To the extent possible, we intend to structure the sales of our vessels so that the gain therefrom is not subject to United States federal income tax. However, there is no assurance we will be able to do so.

***United States Federal Income Taxation of United States Holders***

The following is a discussion of the material United States federal income tax considerations relevant to an investment decision by a United States Holder, as defined below, with respect to our common shares. This discussion does not purport to deal with the tax consequences of owning common shares to all categories of investors, some of which may be subject to special rules. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under United States federal, state, local or foreign law of the ownership of common shares.

As used herein, the term "United States Holder" means a beneficial owner of common shares that is an individual United States citizen or resident, a United States corporation or other United States entity taxable as a corporation, an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

If a partnership holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding common shares, you are encouraged to consult your tax advisor.

***Distributions***

Subject to the discussion of passive foreign investment companies below, any distributions made by us with respect to our common shares to a United States Holder will generally constitute dividends to the extent of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of such earnings and profits will be treated first as a nontaxable return of capital to the extent of the United States Holder's tax basis in his common shares on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a United States corporation, United States Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to

our common shares will generally be treated as “passive category income” for purposes of computing allowable foreign tax credits for United States foreign tax credit purposes.

Dividends paid on our common shares to a United States Holder who is an individual, trust or estate (a "United States Non-Corporate Holder") will generally be treated as "qualified dividend income" that is taxable to such United States Non-Corporate Holder at preferential tax rates (through 2012) provided that (1) the common shares are readily tradable on an established securities market in the United States (such as the NYSE, on which our common shares are traded); (2) we are not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which, as discussed below, we have not been, are not and do not anticipate being in the future); (3) the United States Non-Corporate Holder has owned the common shares for more than 60 days in the 121-day period beginning 60 days before the date on which the common shares become ex-dividend; and (4) the United States Non-Corporate Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property.

Legislation has been previously introduced in the United States Congress which, if enacted in its present form, would preclude our dividends from qualifying for such preferential rates prospectively from the date of its enactment. Further, in the absence of legislation extending the term of the preferential tax rates for qualified dividend income, all dividends received by a taxpayer in tax years beginning on January 1, 2013 or later will be taxed at ordinary graduated tax rates. Any distributions out of earnings and profits we pay which are not eligible for these preferential rates will be taxed as ordinary income to a United States Non-Corporate Holder.

Special rules may apply to any "extraordinary dividend"—generally, a dividend in an amount which is equal to or in excess of 10% of a shareholder's adjusted tax basis in his common shares—paid by us. If we pay an "extraordinary dividend" on our common shares that is treated as "qualified dividend income," then any loss derived by a United States Non-Corporate Holder from the sale or exchange of such common shares will be treated as long-term capital loss to the extent of such dividend.

***Sale, Exchange or Other Disposition of Common Shares***

Assuming we do not constitute a passive foreign investment company for any taxable year, a United States Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common shares in an amount equal to the difference between the amount realized by the United States Holder from such sale, exchange or other disposition and the United States Holder's tax basis in such shares. Such gain or loss will be treated as long-term capital gain or loss if the United States Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as United States source income or loss, as applicable, for United States foreign tax credit purposes. Long-term capital gains of United States Non-Corporate Holders are currently eligible for reduced rates of taxation. A United States Holder's ability to deduct capital losses is subject to certain limitations.

**Passive Foreign Investment Company Status and Significant Tax Consequences**

Special United States federal income tax rules apply to a United States Holder that holds shares in a foreign corporation classified as a "passive foreign investment company", or a PFIC, for United States federal income tax purposes. In general, we will be treated as a PFIC with respect to a United States Holder if, for any taxable year in which such Holder holds our common shares, either:

- at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business); or

- at least 50% of the average value of our assets during such taxable year produce, or are held for the production of, passive income.

For purposes of determining whether we are a PFIC, we will be treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiary corporations in which we own at least 25% of the value of the subsidiary's stock. Income earned, or deemed earned, by us in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute "passive income" unless we were treated under specific rules as deriving our rental income in the active conduct of a trade or business.

Based on our current operations and future projections, we do not believe that we have been, are, nor do we expect to become, a passive foreign investment company with respect to any taxable year. Although there is no legal authority directly on point, our belief is based principally on the position that, for purposes of determining whether we are a passive foreign investment company, the gross income we derive or are deemed to derive from the time chartering and voyage chartering activities of our wholly-owned subsidiaries should constitute services income, rather than rental income. Accordingly, such income should not constitute passive income, and the assets that we own and operate in connection with the production of such income, in particular, the vessels, should not constitute assets that produce or are held for the production of passive income for purposes of determining whether we are a PFIC. Therefore, based on our current operations and future projections, we should not be treated as a PFIC with respect to any taxable year. There is substantial legal authority supporting this position, consisting of case law and IRS pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, there is also authority that characterizes time charter income as rental income rather than services income for other tax purposes. It should be noted that in the absence of any legal authority specifically relating to the statutory provisions governing PFICs, the IRS or a court could disagree with our position. Furthermore, although we intend to conduct our affairs in a manner to avoid being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a United States Holder would be subject to different United States federal income taxation rules depending on whether the United States Holder makes an election to treat us as a "Qualified Electing Fund," which election we refer to as a "QEF election." As an alternative to making a QEF election, a United States Holder should be able to make a "mark-to-market" election with respect to our common shares, as discussed below. In addition, if we were to be treated as a PFIC for any taxable year after 2010, a United States Holder would be required to file an annual report with the IRS for that year with respect to such Holder's common shares.

***Taxation of United States Holders Making a Timely QEF Election***

If a United States Holder makes a timely QEF election, which United States Holder we refer to as an "Electing Holder," the Electing Holder must report for United States federal income tax purposes his pro rata share of our ordinary earnings and net capital gain, if any, for each taxable year of the Company during which it is a PFIC that ends with or within the taxable year of the Electing Holder, regardless of whether distributions were received from us by the Electing Holder. No portion of any such inclusions of ordinary earnings will be treated as "qualified dividend income." Net capital gain inclusions of United States Non-Corporate Holders would be eligible for preferential capital gain tax rates. The Electing Holder's adjusted tax basis in the common shares will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the common shares and will not be taxed again once distributed. An Electing Holder would not, however, be entitled to a deduction for its pro rata share of any losses that we incur with respect to any taxable year. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common shares. A United States Holder would make a timely QEF election for our shares by filing one copy of IRS Form 8621 with his United States federal income tax return for the first year in which he held such shares when we were a PFIC. If we were to be treated as a PFIC for any taxable year, we would provide each United States Holder with all necessary information in order to make the QEF election described above.

***Taxation of United States Holders Making a "Mark-to-Market" Election***

Alternatively, if we were to be treated as a PFIC for any taxable year and, as we anticipate will be the case, our common shares are treated as "marketable stock," a United States Holder would be allowed to make a "mark-to-market" election with respect to our common shares, provided the United States Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the United States Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of

the common shares at the end of the taxable year over such Holder's adjusted tax basis in the common shares. The United States Holder would also be permitted an ordinary loss in respect of the excess, if any, of the United States Holder's adjusted tax basis in the common shares over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A United States Holder's tax basis in his common shares would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our common shares would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common shares would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the United States Holder.

***Taxation of United States Holders Not Making a Timely QEF or Mark-to-Market Election***

Finally, if we were to be treated as a PFIC for any taxable year, a United States Holder who does not make either a QEF election or a "mark-to-market" election for that year, whom we refer to as a "Non-Electing Holder," would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on the common shares in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common shares), and (2) any gain realized on the sale, exchange or other disposition of our common shares. Under these special rules:

the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common shares;

the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, would be taxed as ordinary income and would not be "qualified dividend income" and

the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed tax deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

***United States Federal Income Taxation of "Non-United States Holders"***

A beneficial owner of common shares (other than a partnership) that is not a United States Holder is referred to herein as a "Non-United States Holder."

If a partnership holds common shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding common shares, you are encouraged to consult your tax advisor.

***Dividends on Common Stock***

A Non-United States Holder generally will not be subject to United States federal income tax or withholding tax on dividends received from us with respect to his common shares, unless that income is effectively connected with the Non-United States Holder's conduct of a trade or business in the United States. If the Non-United States Holder is entitled to the benefits of a United States income tax treaty with respect to those dividends, that income is subject to United Stated federal income tax only if it is attributable to a permanent establishment maintained by the Non-United States Holder in the United States.

***Sale, Exchange or Other Disposition of Common Shares***

Non-United States Holders generally will not be subject to United States federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our common shares, unless:

- the gain is effectively connected with the Non-United States Holder's conduct of a trade or business in the United States (and, if the Non-United States Holder is entitled to the benefits of a United States income tax treaty with respect to that gain, that gain is attributable to a permanent establishment maintained by the Non-United States Holder in the United States); or

- the Non-United States Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

If the Non-United States Holder is engaged in a United States trade or business for United States federal income tax purposes, dividends on the common shares, and gains from the sale, exchange or other disposition of such shares, that are effectively connected with the conduct of that trade or business will generally be subject to regular United States federal income tax in the same manner as discussed in the previous section relating to the taxation of United States Holders. In addition, if you are a corporate Non-United States Holder, your earnings and profits that are attributable to the effectively connected income, subject to certain adjustments, may be subject to an additional "branch profits" tax at a rate of 30%, or at a lower rate as may be specified by an applicable United States income tax treaty.

***Backup Withholding and Information Reporting***

In general, dividend payments, or other taxable distributions, made within the United States to you will be subject to information reporting requirements if you are a non-corporate United States Holder. Such payments or distributions may also be subject to backup withholding if you are a non-corporate United States Holder and you:

- fail to provide an accurate taxpayer identification number;
- are notified by the IRS that you have failed to report all interest or dividends required to be shown on your United States federal income tax returns; or
- in certain circumstances, fail to comply with applicable certification requirements.

Non-United States Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

If you are a Non-United States Holder and you sell your common shares to or through a United States office of a broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless you certify that you are a non-United States person, under penalties of perjury, or you otherwise establish an exemption. If you sell your common shares through a non-United States office of a non-United States broker and the sales proceeds are paid to you outside the United States, then information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made to you outside the United States, if you sell your common shares through a non-United States office of a broker that is a United States person or has some other contacts with the United States. Such information reporting requirements will not apply, however, if the broker has documentary evidence in its records that you are a non-United States person and certain other conditions are met, or you otherwise establish an exemption.

Backup withholding is not an additional tax. Rather, you generally may obtain a refund of any amounts withheld under backup withholding rules that exceed your United States federal income tax liability by filing a refund claim with the IRS.

Pursuant to recently enacted legislation, individuals who are United States Holders (and to the extent specified in applicable Treasury Regulations, certain individuals who are Non- United States Holders and certain United States entities) who hold "specified foreign financial assets" (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds $75,000 at any time during the taxable year or $50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury regulations). Specified foreign financial assets would include, among other assets, our common shares, unless the shares are held through an account maintained with a United

States financial institution. Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event an individual United States Holder (and to the extent specified in applicable Treasury Regulations, an individual Non- United States Holder or a United States entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of United States federal income taxes of such holder for the related tax year may not close until three years after the date that the required IRS Form 8938 is filed. United States Holders (including United States entities) and Non- United States Holders are encouraged consult their own tax advisors regarding their reporting obligations under this legislation.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

We file reports and other information with the SEC. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the Commission at 100 F Street, N.E. Washington, D.C. 20549, or from the SEC's website http://www.sec.gov. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330, and you may obtain copies at prescribed rates.

**I. Subsidiary Information**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

***Interest Rate Risk***

We are exposed to the impact of interest rate changes primarily through our unhedged variable-rate borrowings. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to service our debt. From time to time, we will use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our variable-rate debt and is not for speculative or trading purposes. We had one interest rate swap which expired in April 2010 when the 2005 Credit Facility was repaid. Currently, we have six interest rate swaps scheduled to start on July 1, 2012 for an aggregate notional amount of $75 million. The fair market value of our interest rate swaps was a liability of $0.7 million at December 31, 2011.

Based on the floating rate debt at December 31, 2011, a one-percentage point increase in the floating interest rate would increase interest expense by $1.5 million per year. The following table presents the due dates for the principal payments on our fixed and floating rate debt:

| | As of December 31, 2011 | | | |
|---|---|---|---|---|
| | 2012 | 2013-2014 | 2015-2016 | Thereafter |
| Principal payments floating rate debt (unhedged) | $2,009,004 | $10,998,300 | $54,894,461 | $— |
| Principal payments fixed rate debt (hedged) | 2,236,537 | 8,441,350 | 33,687,121 | 38,577,758 |
| Total principal payments on outstanding debt | $4,245,541 | $19,439,650 | $88,581,582 | $38,577,758 |

**Spot Market Rate Risk**

The cyclical nature of the tanker industry causes significant increases or decreases in the revenue that we earn from our vessels, particularly those vessels that operate in the spot market or participate in pools that are concentrated in the spot market such as the Scorpio Group Pools. We currently do not have any vessels on time charter contracts.

Additionally, we have the ability to remove our vessels from the pools on relatively short notice if attractive time charter opportunities arise.

**Foreign Exchange Rate Risk**

Our primary economic environment is the international shipping market. This market utilizes the U.S. Dollar as its functional currency. Consequently, virtually all of our revenues and the majority of our operating expenses are in U.S. Dollars. However, we incur some of our combined expenses in other currencies, particularly the Euro. The amount and frequency of some of these expenses (such as vessel repairs, supplies and stores) may fluctuate from period to period. Depreciation in the value of the U.S. dollar relative to other currencies will increase the U.S. dollar cost of us paying such expenses. The portion of our business conducted in other currencies could increase in the future, which could expand our exposure to losses arising from currency fluctuations.

There is a risk that currency fluctuations will have a negative effect on our cash flows. We have not entered into any hedging contracts to protect against currency fluctuations. However, we have some ability to shift the purchase of goods and services from one country to another and, thus, from one currency to another, on relatively short notice. We may seek to hedge this currency fluctuation risk in the future.

**Inflation**

We do not expect inflation to be a significant risk to direct expenses in the current and foreseeable economic environment.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**A. Disclosure Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. The Company’s controls and procedures are designed to provide reasonable assurance of achieving their objectives.

We carried out an evaluation under the supervision, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15e under the Securities Act of 1934) as of December 31, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer

concluded that our disclosure controls and procedures were effective as of December 31, 2011 to provide reasonable assurance that (1) information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

**B. Management's Annual Report on Internal Control Over Financial Reporting.**

In accordance with Rule 13a-15(f) of the Securities Exchange Act of 1934, the management of Scorpio Tankers Inc. and its subsidiaries (the "Company") is responsible for the establishment and maintenance of adequate internal controls over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Management has performed an assessment of the effectiveness of the Company's internal controls over financial reporting as of December 31, 2011 based on the provisions of Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that the Company's internal controls over financial reporting was effective as of December 31, 2011 based on the criteria in Internal Control—Integrated Framework issued by COSO.

The Company's internal control over financial reporting, at December 31, 2011, has been audited by Deloitte LLP, an independent registered public accounting firm, who also audited the Company's consolidated financial statements. Their audit report on the effectiveness of internal control over financial reporting is presented below.

**C. Attestation Report of the Registered Public Accounting Firm.**

To the Board of Directors and Shareholders of Scorpio Tankers Inc.

Majuro, Marshall Island

We have audited the internal control over financial reporting of Scorpio Tankers Inc. and subsidiaries (the "Company") as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining

an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Company and our report dated March 23, 2012 expressed an unqualified opinion on those financial statements.

*DELOITTE LLP*

London, United Kingdom

March 23, 2012

**D. Changes in Internal Control Over Financial Reporting.**

None

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has determined that Mr. Ademaro Lanzara, who serves as chair of the Audit Committee, qualifies as an “audit committee financial expert” and that he is “independent” according to Securities and Exchange Commission rules.

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics applicable to officers, directors and employees. Our code of ethics complies with applicable guidelines issued by the SEC and was previously filed as an exhibit to this annual report.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**A. Audit Fees**

Our principal accountant for fiscal years ended December 31, 2011, 2010 and 2009 was Deloitte LLP (London, United Kingdom), and the audit fees for those periods were $380,174, $218,167 and $155,338, respectively.

**B. Audit-Related Fees**

During 2010 our principal accountant provided audit related services for Sarbanes-Oxley readiness. Fees for those services were $30,500.

**C. Tax Fees**

None.

**D. All Other Fees**

During 2011, our principal accountant provided services related to our F-3 shelf registration and follow-on offerings which were completed on May 10, 2011, May 18, 2011 and December 6, 2011, respectively. The fees for these services were $28,982, $72,896 and $86,206, respectively. During 2010, our principal accountant provided services related to the initial public offering and follow-on offering, which were completed on April 16, 2010 and November 22, 2010, respectively. The fees for these services were $313,532 and $249,658, respectively.

**E. Audit Committee's Pre-Approval Policies and Procedures**

Our Audit Committee pre-approves all audit, audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees prior to the engagement of the independent auditor with respect to such services.

**F. Audit Work Performed by Other Than Principal Accountant if Greater Than 50%**

Not applicable.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On July 9, 2010, the board of directors authorized a share buyback program of $20 million. We repurchase these shares in the open market at the time and prices that we consider to be appropriate. As of December 31, 2011, 723,665 shares have been purchased under the plan at an average price of $7.5981 per share, including commissions. The amounts purchased, by month, are set out in the table below:

Issuer Purchases of Equity Securities

| Period | (A) Total Number of Shares Purchased | (B) Average Price Paid Per Shares | ( C ) Total Number of Shares Purchased as Part of Publicly Announced Programs | (D) Maximum Amount in US $ million that may Yet Be Expected on Share Repurchases Under Programs |
|---|---|---|---|---|
| June 2011 | 23,319 | $ 9.53 | 23,319 | $17,130,002 |
| July 2011 | | | | |
| August 2011 | 18,870 | $ 6.02 | 18,870 | $17,016,383 |
| September 2011 | 209,006 | $ 6.04 | 209,006 | $15,753,148 |
| October 2011 | 228,324 | $ 5.48 | 228,324 | $14,501,507 |
| **Total** | **723,665** | **$ 7.60** | **723,665** | **$14,501,507** |

Officers and directors acquired 302,456 shares during 2011.

** A member of the Lolli-Ghetti Family acquired 700,000 shares in May 2011 in our underwritten public offering.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Pursuant to an exception for foreign private issuers, we, as a Marshall Islands company, are not required to comply with the corporate governance practices followed by U.S. companies under the NYSE listing standards. We believe that our established practices in the area of corporate governance are in line with the spirit of the NYSE standards and provide adequate protection to our shareholders. In this respect, we have voluntarily adopted NYSE required practices, such as (i) having a majority of independent directors, (ii) establishing audit, compensation and nominating committees and (iii) adopting a Code of Ethics.

There are two significant differences between our corporate governance practices and the practices required by the NYSE. The NYSE requires that non-management directors meet regularly in executive sessions without management. The NYSE also requires that all independent directors meet in an executive session at least once a year. The Marshall Islands law and our bylaws do not require our non-management directors to regularly hold executive sessions without management. During 2011 and through the date of this annual report, our non-management directors met in executive session three times. The NYSE requires companies to adopt and disclose corporate governance guidelines. The guidelines must address, among other things: director qualification standards, director responsibilities, director access to management and independent advisers, director compensation, director orientation and continuing education, management succession and an annual performance evaluation. We are not required to adopt such guidelines under Marshall Islands law and we have not adopted such guidelines.

**Item 16H. Mine Safety Disclosure**

Not applicable

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable

**ITEM 18. FINANCIAL STATEMENTS**

The financial information required by this Item is set forth on pages F-1 to F-39 and is filed as part of this annual report.

**ITEM 19. EXHIBITS**

| **Exhibit Number** | **Description** |
|---|---|
| 1.1 | Amended and Restated Articles of Incorporation of the Company (1) |
| 1.2 | Amended and Restated Bylaws of the Company (3) |
| 2.1 | Form of Stock Certificate (1) |
| 2.2 | Form of Senior Debt Securities Indenture (5) |
| 2.3 | Form of Subordinated Debt Securities Indenture (5) |
| 4.1 | Amended and Restated Loan Agreement for $150 Million Revolving Credit Facility, dated July 12, 2011 |
| 4.2 | Letter Agreement to July 12, 2011 Amended and Restated Loan Agreement, dated September 22, 2011 |
| 4.3 | First Amendatory Agreement to July 12, 2011 Amended and Restated Loan Agreement, dated December 22, 2011 |

4.4 2010 Equity Incentive Plan (3)
4.5 Administrative Services Agreement between the Company and Liberty Holding Company Ltd. (2)

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| Exhibit Number | Description |
|---|---|
| 4.6 | Form of Commercial Management Agreement with SCM (2) |
| 4.7 | Form of Technical Management Agreement with SSM (2) |
| 4.8 | Loan Agreement for STI Spirit, dated March 9, 2011 (4) |
| 4.9 | Letter Agreement to March 9, 2011 Loan Agreement, dated September 28, 2011 |
| 4.10 | First Amendatory Agreement to March 9, 2011 Loan Agreement, dated December 30, 2011 |
| 4.11 | Loan Agreement for $150 Million Term Loan Credit Facility, dated May 3, 2011 |
| 4.12 | Letter Agreement to May 3, 2011 Loan Agreement, dated September 22, 2011 |
| 4.13 | First Amendatory Agreement to May 3, 2011 Loan Agreement, dated June 27, 2011 |
| 4.14 | Second Amendatory Agreement to May 3, 2011 Loan Agreement, dated December 22, 2011 |
| 4.15 | Loan Agreement for a $92,000,000 Term Loan Credit Facility, dated December 21, 2011 |
| 8.1 | Subsidiaries of the Company |
| 11.1 | Code of Ethics (3) |
| 11.2 | Whistleblower Policy |
| 12.1 | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer |
| 12.2 | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer |
| 13.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 15.1 | Consent of Independent Registered Public Accounting Firm |
| 15.2 | Consent of Drewry Shipping Consultants, Ltd. |

(1) Filed as an Exhibit to the Company's Amended Registration Statement on Form F-1/A (Amendment No. 1) (File No. 333-164940) on March 10, 2010.

(2) Filed as an Exhibit to the Company's Amended Registration Statement on Form F-1/A (Amendment No. 2) (File No. 333-164940) on March 18, 2010.

(3) Filed as an Exhibit to the Company's Annual Report filed on Form 20-F on June 29, 2010.

(4) Filed as an Exhibit to the Company's Annual Report filed on Form 20-F on April 21, 2011.

(5) Filed as an Exhibit to the Company's Registration Statement on Form F-3 (File No. 333-173929) on May 4, 2011.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

Scorpio Tankers Inc.

(Registrant)

Dated: March 23, 2012

/s/Emanuele Lauro

Emanuele Lauro

Chief Executive Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Scorpio Tankers Inc.

Majuro, Marshall Island

We have audited the accompanying consolidated balance sheets of Scorpio Tankers Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of profit or loss, consolidated statements of comprehensive loss or income, consolidated statements of changes in shareholders' equity, and consolidated cash flow statements for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Scorpio Tankers Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 23, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

*DELOITTE LLP*

London, United Kingdom

March 23, 2012

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**Scorpio Tankers Inc. and Subsidiaries**

**Consolidated balance sheets**

**December 31, 2011 and 2010**

| | Notes | As of December 31, 2011 | December 31, 2010 |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 2 | $36,833,090 | $68,186,902 |
| Accounts receivable | 3 | 20,385,546 | 7,354,252 |
| Prepaid expenses | 4 | 1,535,437 | 460,680 |
| Inventories | 5 | 2,696,296 | 1,286,507 |
| Total current assets | | 61,450,369 | 77,288,341 |
| Non-current assets | | | |
| Vessels and drydock | 6 | 322,457,755 | 333,425,386 |
| Vessels under construction | 6 | 60,332,870 | - |
| Other assets | 8 | 3,988,778 | 1,554,713 |
| Total non-current assets | | 386,779,403 | 334,980,099 |
| Total assets | | $448,229,772 | $412,268,440 |
| | | | |
| Current liabilities | | | |
| Bank loans | 11 | 2,888,723 | 15,826,314 |
| Accounts payable | 9 | 11,732,427 | 3,173,505 |
| Accrued expenses | 10 | 3,376,033 | 1,123,351 |
| Derivative financial instruments | 12 | 236,987 | - |
| Total current liabilities | | 18,234,170 | 20,123,170 |
| Non-current liabilities | | | |
| Bank loans | 11 | 142,678,788 | 127,362,088 |
| Derivative financial instruments | 12 | 463,587 | - |
| Total non-current liabilities | | 143,142,375 | 127,362,088 |
| Total liabilities | | 161,376,545 | 147,485,258 |
| | | | |
| Shareholders' equity | | | |
| Issued, authorized and fully paid in share capital: | | | |
| Share capital | 14 | 390,691 | 248,791 |
| Additional paid in capital | 14 | 363,209,983 | 255,003,984 |
| Merger reserve | 14 | - | 13,292,496 |
| Treasury shares | 14 | (5,498,495) | (2,647,807) |
| Hedging reserve | 12 | (700,574) | - |
| Accumulated deficit | 14 | (70,548,378) | (1,114,282) |
| Total shareholders' equity | | 286,853,227 | 264,783,182 |
| Total liabilities and shareholders' equity | | $448,229,772 | $412,268,440 |

The accompanying notes are an integral part of these consolidated financial statements.

**Scorpio Tankers Inc. and Subsidiaries**

**Consolidated statements of profit or loss**

**For the years ended December 31, 2011, 2010 and 2009**

| | | For the year ended December 31, | | |
|---|---|---|---|---|
| | Notes | 2011 | 2010 | 2009 |
| Revenue: | | | | |
| Vessel revenue | 16 | $82,109,691 | $38,797,913 | $27,619,041 |
| Operating expenses: | | | | |
| Vessel operating costs | 18 | (31,369,646) | (18,440,492) | (8,562,118) |
| Voyage expenses | | (6,881,019) | (2,542,298) | - |
| Charterhire | 17 | (22,750,257) | (275,532) | (3,072,916) |
| Impairment | 7 | (66,610,544) | - | (4,511,877) |
| Depreciation | | (18,460,117) | (10,178,908) | (6,834,742) |
| General and administrative expenses | 19 | (11,636,713) | (6,200,094) | (416,908) |
| Total operating expenses | | (157,708,296) | (37,637,324) | (23,398,561) |
| Operating (loss)/income | | (75,598,605) | 1,160,589 | 4,220,480 |
| Other (expense) and income, net | | | | |
| Financial expenses | 20 | (7,060,027) | (3,230,895) | (699,115) |
| Realized (loss) on derivative financial instruments | 12 | - | (279,560) | (808,085) |
| Unrealized gain on derivative financial instruments | 12 | - | - | 956,120 |
| Financial income | | 51,008 | 36,534 | 4,929 |
| Other expenses, net | | (118,968) | (508,766) | (256,292) |
| Total other expense, net | | (7,127,987) | (3,982,687) | (802,443) |
| Net (loss)/income | | $(82,726,592) | $(2,822,098) | $3,418,037 |
| Attributable to: | | | | |
| Equity holders of the parent | | $(82,726,592) | $(2,822,098) | $3,418,037 |
| Loss per share | | | | |
| Basic and diluted | 22 | $(2.88) | $(0.18) | $0.61 |
| Basic and diluted weighted average shares outstanding | 22 | 28,704,876 | 15,600,813 | 5,589,147 |

The accompanying notes are an integral part of these consolidated financial statements.

**Scorpio Tankers Inc. and Subsidiaries**

**Consolidated statements of comprehensive loss or income**

**For the years ended December 31, 2011, 2010 and 2009**

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Net (loss)/income | $(82,726,592) | $(2,822,098) | $3,418,037 |
| Other comprehensive loss: | | | |
| Unrealized loss on derivative financial instruments | (700,574) | - | - |
| Other comprehensive loss | (700,574) | - | - |
| Total comprehensive (loss)/income | $(83,427,166) | $(2,822,098) | $3,418,037 |

The accompanying notes are an integral part of these consolidated financial statements.

**Scorpio Tankers Inc. and Subsidiaries**

**Consolidated statements of changes in shareholders' equity**

**For the years ended December 31, 2011, 2010 and 2009**

| | Number of shares outstanding | Share capital | Additional paid-in capital | Treasury shares | Merger reserve | Retained earnings/ (Accumulated deficit) | Hedging reserve | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2009 | 5,589,147 | 55,891 | $- | $- | $20,243,275 | $- | $- | $20,299,166 |
| Net income for the period | - | - | - | - | 1,710,221 | 1,707,816 | - | 3,418,037 |
| Capital contribution | - | - | 46,272,339 | - | - | - | - | 46,272,339 |
| Dividends paid ($1.55 per share) | - | - | - | - | (8,661,000) | - | - | (8,661,000) |
| Balance at December 31, 2009 | 5,589,147 | $55,891 | $46,272,339 | $- | $13,292,496 | $1,707,816 | $- | $61,328,542 |
| Balance at January 1, 2010 | 5,589,147 | $55,891 | $46,272,339 | $- | $13,292,496 | $1,707,816 | $- | $61,328,542 |
| Net loss for the period | - | - | - | - | - | (2,822,098) | - | (2,822,098) |
| Net proceeds from initial public offering | 18,721,454 | 187,215 | 207,749,057 | - | - | - | - | 207,936,272 |
| Issuance of restricted shares | 568,458 | 5,685 | (5,685) | - | - | - | - | - |
| Amortization of restricted shares | - | - | 988,273 | - | - | - | - | 988,273 |
| Purchase of treasury shares | (244,146) | | | (2,647,807) | - | - | - | (2,647,807) |
| Balance at December 31, 2010 | 24,634,913 | $248,791 | $255,003,984 | $(2,647,807) | $13,292,496 | $(1,114,282) | $- | $264,783,182 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2011 | 24,634,913 | $248,791 | $255,003,984 | $(2,647,807) | $13,292,496 | $(1,114,282) | $- | $264,783,182 |
| Net loss for the period | - | - | - | - | - | (82,726,592) | - | (82,726,592) |
| Other comprehensive loss | - | - | - | - | - | - | (700,574) | (700,574) |
| Net proceeds from follow on offerings (Note 14) | 13,900,000 | 139,000 | 104,846,554 | - | - | - | - | 104,985,554 |
| Issuance of restricted shares | 290,000 | 2,900 | (2,900) | - | - | - | - | - |
| Amortization of restricted shares | - | - | 3,362,345 | - | - | - | - | 3,362,345 |
| Purchase of treasury shares | (479,519) | - | - | (2,850,688) | - | - | - | (2,850,688) |
| Transfer to/from reserves | - | - | - | - | (13,292,496) | 13,292,496 | - | - |
| Balance at December 31, 2011 | 38,345,394 | $390,691 | $363,209,983 | $(5,498,495) | $- | $(70,548,378) | $(700,574) | $286,853,227 |

The accompanying notes are an integral part of these consolidated financial statements.

**Scorpio Tankers Inc. and Subsidiaries**

**Consolidated statements of changes in shareholders' equity**

**For the years ended December 31, 2011, 2010 and 2009**

| | | For the year ended December 31, | | |
|---|---|---|---|---|
| | | 2011 | 2010 | 2009 |
| | Notes | | | |
| Operating activities | | | | |
| Net (loss)/income | | $(82,726,592) | $(2,822,098) | $3,418,037 |
| Depreciation | 6 | 18,460,117 | 10,178,908 | 6,834,742 |
| Impairment | 7 | 66,610,544 | - | 4,511,877 |
| Amortization of restricted stock | | 3,362,345 | 988,273 | - |
| Amortization of deferred financing fees | | 985,881 | 246,130 | - |
| Amortization of acquired time charter contracts | | - | 2,344,495 | - |
| Write off of vessel purchase options | | 126,337 | - | - |
| Straight-line adjustment for charterhire expense | | 84,201 | - | - |
| | | 6,902,833 | 10,935,708 | 14,764,656 |
| Changes in assets and liabilities: | | | | |
| Drydock payments | | (2,516,409) | (974,430) | (1,580,826) |
| (Increase)/decrease in inventories | | (1,409,789) | (853,079) | 69,086 |
| (Increase)/decrease in accounts receivable | | (13,031,294) | (5,915,254) | 2,262,984 |
| (Increase)/decrease in prepaid expenses | | (1,074,757) | 123,265 | (4,345) |
| (Decrease)/increase in accounts payable | | (954,027) | 2,600,483 | (279,628) |
| Increase in accrued expenses | | 1,005,799 | 175,218 | 120,641 |
| Decrease/(increase) in the value of derivative financial instruments | | - | 164,690 | (956,120) |
| Interest rate swap termination payment | | - | (1,850,000) | - |
| Decrease/(increase) in shareholder receivable | | - | 1,928,253 | (1,928,253) |
| Decrease in shareholder payable | | - | - | (3,162,344) |
| Increase in other assets | | (1,373,519) | (1,428,376) | - |
| | | (19,353,996) | (6,029,230) | (5,458,805) |
| Net cash (outflow)/inflow from operating activities | | (12,451,163) | 4,906,478 | 9,305,851 |
| Investing activities | | | | |
| Acquisition of vessels | | (71,478,937) | (243,121,582) | - |
| Vessels under construction | | (51,094,500) | - | - |
| Acquisition of time charter contracts | | - | (2,344,495) | - |
| Purchases of other assets | | - | (128,732) | - |
| Net cash outflow from investing activities | | (122,573,437) | (245,594,809) | - |
| Financing Activities | | | | |
| Dividends paid | | - | - | (8,661,000) |
| Bank loan repayment | | (109,637,551) | (44,625,418) | (3,600,000) |
| Bank loan drawdown | | 115,307,500 | 150,000,000 | - |
| Debt issuance costs | | (4,134,028) | (2,232,310) | - |
| Net proceeds from issuance of common stock | | 104,985,555 | 207,936,272 | (207,990) |
| Purchase of Treasury shares | | (2,850,688) | (2,647,807) | - |

| | | | |
|---|---|---|---|
| Net cash inflow/(outflow) from financing activities | 103,670,788 | 308,430,737 | (12,468,990) |
| (Decrease)/increase in cash and cash equivalents | (31,353,812) | 67,742,406 | (3,163,139) |
| Cash and cash equivalents at January 1, | 68,186,902 | 444,496 | 3,607,635 |
| Cash and cash equivalents at December 31, | $36,833,090 | $68,186,902 | $444,496 |
| | | | |
| Supplemental information: | | | |
| Interest paid | $5,348,573 | $2,276,694 | $760,974 |

During 2009 there were two significant non-cash transactions requiring disclosure (i) the legal formation of the Scorpio Tankers Inc. and its subsidiaries (see Note 1) and (ii) the conversion of the related party payable of $27.4 million and shareholder payable of $18.9 million to equity. There were no non-cash transactions during 2010 requiring disclosure. During 2011, we accrued $9.4 million for an installment payment on our newbuilding vessels (see note 6) which represents a significant non-cash transaction. This payment was made in January 2012.

The accompanying notes are an integral part of these consolidated financial statements.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

## 1. General information and significant accounting policies

### Company

Scorpio Tankers Inc. and its subsidiaries (together "we", "our" or the "Company") are engaged in seaborne transportation of crude oil and refined petroleum products in the international shipping markets. Scorpio Tankers Inc. was incorporated in the Republic of the Marshall Islands on July 1, 2009.

On October 1, 2009, Simon Financial Limited ("Simon") transferred to Scorpio Tankers Inc. three operating subsidiary companies, as described further below. Simon is owned by the Lolli-Ghetti family of which, Emanuele Lauro, our founder, Chairman and Chief Executive Officer is a member.

On April 6, 2010, we closed on the initial public offering of 12,500,000 shares of common stock at $13.00 per share. The stock trades on the New York Stock Exchange under the symbol STNG. Further details of the initial public offering and certain follow-on offerings are provided in Note 14.

Prior to the initial public offering, a subsidiary of Simon owned 100% of our shares (or 5,589,147 shares). As of December 31, 2011 and after completion of both the initial public offering and subsequent follow-on offerings, the Lolli-Ghetti family no longer maintains a controlling interest in the Company.

### Business

Our owned fleet at December 31, 2011 consisted of one LR2 product tanker, four LR1 product tankers, two MR product tankers, four Handymax tankers and one post-Panamax tanker engaged in seaborne transportation of crude oil and refined petroleum products in the international shipping markets. We had one LR2 and six Handymax product tankers time chartered-in as of December 31, 2011. Additionally, we had contracted for six newbuilding MR tankers under construction at Hyundai Mipo Dockyard Co. Ltd. of South Korea ("Hyundai") as of December 31, 2011.

Our vessels are commercially managed by Scorpio Commercial Management S.A.M. ("SCM"), which is currently owned by the Lolli-Ghetti family. SCM's services include securing employment, in pools, in the spot market and on time charters.

Our vessels are technically managed by Scorpio Ship Management S.A.M. ("SSM"), which is also owned by the Lolli-Ghetti family. SSM facilitates vessel support such as crew, provisions, deck and engine stores, insurance, maintenance and repairs, and other services as necessary to operate the vessels such as drydocks and vetting/inspection under a technical management agreement.

During 2011, we had an administrative services agreement with Liberty Holding Company ("Liberty"), which is a subsidiary of Simon. On March 13, 2012, the agreement was assigned to Scorpio Services Holding Ltd or SSH. The

administrative services provided under the agreement primarily include accounting, legal compliance, financial, information technology services, and the provision of administrative staff and office space. Liberty has contracted these services to SCM. We pay our managers fees for these services and reimburse them for direct or indirect expenses that they incur in providing these services.

**Basis of accounting**

The consolidated financial statements have been presented in United States dollars (USD or $), which is the functional currency of Scorpio Tankers Inc. and all its subsidiaries. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board and on a historical cost basis, except for the revaluation of certain financial instruments.

Simon transferred three subsidiaries to the Company (see below) on October 1, 2009 for a nominal consideration. For accounting purposes, this transfer represented a combination of entities under common control, with Simon being the ultimate parent company of all entities in the Company prior to our initial public offering. As such, this business combination was outside the scope of IFRS 3 (2004), "Business Combinations", and for the year ended December 31, 2009 the results have therefore been prepared using the principles of merger accounting. Under this method:

- the carrying values of the assets and liabilities of the parties to the combination are recorded at the historical carrying amount of those assets and liabilities and are not adjusted to fair value on combination;
- the results and cash flows of all the combining entities are brought into the consolidated financial statements of the combined entity from the beginning of the financial year in which the combination occurred. Prior year comparatives are also presented on the basis that the combination was in place throughout the prior year; and
- the difference between the historical carrying amounts of net assets transferred and the consideration provided on transfer has been recognized in equity through share capital and the merger reserve. In June 2011, our board of directors authorized the reclassification of the merger reserve of $13.3 million within shareholders’ equity to retained earnings.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

Any profits recognized after the October 1, 2009 reorganization have been recognized in equity within retained earnings.

Subsidiaries transferred to Scorpio Tankers Inc. on October 1, 2009 were:

| Company | Vessel | Percent owned | Incorporated in |
|---|---|---|---|
| · Noemi Shipping Company Limited | Noemi | 100% | The Republic of the Marshall Islands |
| · Senatore Shipping Company Limited | Senatore | 100% | The Republic of the Marshall Islands |
| · Venice Shipping Company Limited | Venice | 100% | The Republic of the Marshall Islands |

All inter-company transactions, balances, income and expenses were eliminated on consolidation. There have been no cost allocations from Simon, as all costs of doing business have been included in the operations of the subsidiaries.

**Going concern**

The financial statements have been prepared in accordance with the going concern basis of accounting for the reasons outlined in the "Liquidity Risk" section of Note 23.

**Significant Accounting Policies**

**Common control transactions**

The assets and liabilities transferred from entities under common control were recorded at the transferor's carrying values. Any difference between the carrying value of the net assets acquired, and the consideration paid by us was accounted for as an adjustment to shareholder's equity. The net assets transferred and their results were recognized from the date on which control was obtained by the ultimate controlling party.

**Revenue recognition**

Vessel revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, and other sales-related or value added taxes.

Vessel revenue is comprised of time charter revenue, voyage revenue and pool revenue.

(1) Time charter revenue is recognized as services are performed based on the daily rates specified in the time charter contract.

(2) Voyage charter agreements are charter hires, where a contract is made in the spot market for the use of a vessel for a specific voyage for a specified charter rate. Revenue from voyage charter agreements is recognized as voyage revenue on a pro-rata basis over the duration of the voyage on a discharge to discharge basis.

(3) Pool revenue for each vessel is determined in accordance with the profit sharing terms specified within each pool agreement. In particular, the pool manager aggregates the revenues and expenses of all of the pool participants and distributes the net earnings to participants based on:

· the pool points (vessel attributes such as cargo carrying capacity, fuel consumption, and construction characteristics are taken into consideration); and

· the number of days the vessel participated in the pool in the period.

We recognize pool revenue on a monthly basis, when the vessel has participated in a pool during the period and the amount of pool revenue for the month can be estimated reliably. We receive estimated vessel earnings based on the known number of days the vessel has participated in the pool, the contract terms, and the estimated monthly pool revenue. On a quarterly basis, we receive a report from the pool which identifies the number of days the vessel participated in the pool, the total pool points for the period, the total pool revenue for the period, and the calculated share of pool revenue for the vessel. We review the quarterly report for consistency with each vessel's pool agreement and vessel management records. The estimated pool revenue is reconciled quarterly, coinciding with our external reporting periods, to the actual pool revenue earned, per the pool report. Consequently, in our financial statements, reported revenues represent actual pooled revenues. While differences do arise in the performance of these quarterly reconciliations, such differences are not material to total reported revenues.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

Interest receivable is accrued on a time basis and includes interest earned on cash deposits.

**Acquired time charter contracts**

Acquired time charter contracts arise from the purchase of time charter contracts from third parties and are stated at cost at the date of acquisition, less accumulated amortization. Where the time charter contract is acquired along with a vessel, the cost of the acquisition is determined based on the relative fair values of each element acquired. Amortization expense is recognized on a straight line basis over the useful life of the asset, which has been determined to be the remaining contract life at the date of acquisition. The useful life and amortization method are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense related to the assets is recognized as an offset to revenue.

**Voyage expenses**

Voyage expenses, which primarily include bunkers, port charges, canal tolls, cargo handling operations and brokerage commissions paid by us under voyage charters are expensed ratably over the estimated length of each voyage, which can be allocated between reporting periods based on the timing of the voyage. Consistent with our revenue recognition for voyage charters, voyage expenses are calculated on a discharge-to-discharge basis.

**Vessel operating costs**

Vessel operating costs, which include crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses, and technical management fees, are expensed as incurred.

**(Loss)/earnings per share**

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the common shares by the weighted average number of common shares outstanding assuming that the reorganization described under "Basis of Accounting" was effective during all periods shown. Diluted earnings per share are calculated by adjusting the net income attributable to equity holders of the parent and the weighted average number of common shares used for calculating basic earnings per share for the effects of all potentially dilutive shares. Such potentially dilutive common shares are excluded when the effect would be to increase earnings per share or reduce a loss per share. For the year ended December 31, 2009, we had no potentially dilutive common shares. In the years ended December 31, 2011 and 2010, there were potentially dilutive items as a result of our restricted stock plan (see note 14). However, we were in a loss making position for those years, and therefore there was no impact of these potentially dilutive items on earnings per share.

**Charterhire expense**

Charterhire expense is the amount we pay the owner for time chartered-in vessels. The amount is usually for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates, profit sharing, or current market rates. The vessel's owner is responsible for crewing and other vessel operating costs. Charterhire expense is recognized ratably over the charterhire period.

**Operating leases**

Costs in respect of operating leases are charged to the consolidated statement of profit or loss on a straight line basis over the lease term.

**Foreign currencies**

The individual financial statements of Scorpio Tankers Inc. and each of its subsidiaries are presented in the currency of the primary economic environment in which we operate (its functional currency), which in all cases is US dollars. For the purpose of the consolidated financial statements, our results and financial position are also expressed in US dollars.

In preparing the financial statements of Scorpio Tankers Inc. and each of its subsidiaries, transactions in currencies other than the US dollar are recorded at the rate of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in other currencies are retranslated into the functional currency at rates ruling at that date. All resultant exchange differences have been recognized in the consolidated profit or loss statement. The amount charged to the consolidated profit or loss statement during 2011 was a gain of $22,802 and in 2010 and 2009 were losses of $506 and $36,626, respectively.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

**Segment reporting**

For the year ended December 31, 2009 we reported one business segment and one geographical segment since (i) all of the vessels during those periods were Panamax vessels that transport oil and refined petroleum products and (ii) all of the vessels can trade in the international shipping market and are not limited to specific parts of the world. During that year, the chief operating decision makers of Simon did not evaluate our operating results on a discrete basis including on an individual subsidiary or individual vessel basis nor by distinct geographical locations. Rather, our operating results were assessed on an aggregated owned vessel basis. We have therefore not presented separate tables for the results of operations in this period as all relevant information can be obtained directly from the consolidated statement of profit or loss.

During the years ended 2010 and 2011, we owned or chartered-in vessels spanning four different classes, Handymax, MR, Panamax/LR1, and Aframax/LR2, all of which earn revenues in the seaborne transportation of crude oil and refined petroleum products in the international shipping markets. Each vessel within its respective class qualifies as an operating segment under IFRS. However, each vessel also exhibits similar long-term financial performance and similar economic characteristics to the other vessels within the respective vessel class, thereby meeting the aggregation criteria in IFRS. We have therefore chosen to present our segment information by vessel class using the aggregated information from the individual vessels.

Segment results are evaluated based on reported profit or loss from each segment. The accounting policies applied to the reportable segments are the same as those used in the preparation of our consolidated financial statements.

It is not practical to report revenue or non-current assets on a geographical basis due to the international nature of the shipping market.

**Vessels and drydock**

Our fleet is measured at cost, which includes directly attributable financing costs and the cost of work undertaken to enhance the capabilities of the vessels, less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to the estimated residual value over the anticipated useful life of the vessel from date of delivery. Vessels under construction are not depreciated until such time as they are ready for use. The residual value is estimated as the lightweight tonnage of each vessel multiplied by scrap value per ton. The scrap value per ton is estimated taking into consideration the historical four year scrap market rates at the balance sheet date with changes accounted for in the period of change and in future periods.

The vessels are required to undergo planned drydocks for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating, approximately every 30 months or 60 months depending on the nature of work and external requirements. These drydock costs are capitalized and depreciated on a straight-line basis over the estimated period until the next drydock. We only include in deferred drydocking costs those direct costs that are incurred as part of the drydocking to meet regulatory

requirements, or are expenditures that add economic life to the vessel, increase the vessel's earnings capacity or improve the vessel's efficiency. Direct costs include shipyard costs as well as the costs of placing the vessel in the shipyard. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred.

For an acquired or newly built vessel, a notional drydock is allocated from the vessel's cost. The notional drydock cost is estimated by us, based on the expected costs related to the next drydock, which is based on experience and past history of similar vessels, and carried separately from the cost of the vessel. Subsequent drydocks are recorded at actual cost incurred. The drydock asset is amortized on a straight-line basis to the next estimated drydock. The estimated amortization period for a drydock is based on the estimated period between drydocks. We estimate the period between drydocks to be 30 months to 60 months. When the drydock expenditure is incurred prior to the expiry of the period, the remaining balance is expensed.

**Impairment of vessels and drydock**

At each balance sheet date, we review the carrying amount of our vessels and drydock to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the vessels and drydock is estimated in order to determine the extent of the impairment loss (if any). We treat each vessel and the related drydock as a cash generating unit.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

Recoverable amount is the higher of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the cash generating unit is estimated to be less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the cash generating unit in the prior years. A reversal of impairment is recognized as income immediately.

**Inventories**

Inventories consist of lubricating oils and other items including stock provisions, and are stated at the lower of cost and net realisable value. Cost is determined using the first in first out method. Stores and spares are charged to vessel operating costs when purchased.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated profit or loss in the period in which they are incurred.

**Financial instruments**

Financial assets and financial liabilities are recognized in our balance sheet when we become a party to the contractual provisions of the instrument.

***Financial assets***

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

***Financial assets at FVTPL***

Financial assets are classified as at FVTPL where the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that we manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 23.

***Loans and receivables***

Amounts due from the pool and other receivables that have fixed or determinable payments and are not quoted in an active market are classified as accounts receivable. Accounts receivable are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Financial assets objective evidence of impairment could include:

l significant financial difficulty of the issuer or counterparty; or

l default or delinquency in interest or principal payments; or

l it becomes probable that the borrower will enter bankruptcy or financial re-organization.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly-liquid investments with original maturities of three months or less, and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

***Financial liabilities***

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL where the financial liability is held for trading, using the criteria set out above for financial assets.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 23.

***Other financial liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

***Effective interest method***

The effective interest method is a method of calculating the amortized cost of a financial asset and a financial liability. It allocates interest income and interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the financial asset and financial liability, or, where appropriate, a shorter period.

***Derivative financial instruments***

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship. We designate certain derivatives as hedges of highly probable forecast transactions (cash flow hedges) as described further below.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months, and it is not expected to be realized or settled within 12 months.

Further details of derivative financial instruments are disclosed in Notes 12 and 23 to the consolidated financial statements.

***Hedge accounting for cash flow hedges***

The Company's policy is to designate certain hedging instruments, which can include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

For the years ended December 31, 2011, 2010 and 2009, we were party to derivative financial instruments to manage our exposure to interest rate fluctuations. With a portion of the net proceeds from our initial public offering, on April 9, 2010, we settled the outstanding portion of an interest rate swap entered into in April 2005. In August 2011, we entered into six interest rate swap agreements to manage interest costs and the risk associated with changing interest rates on our 2011 Credit Facility and 2010 Revolving Credit Facility (see note 11). These swaps have been designated and accounted for as cash flow hedges. Derivative financial instruments are initially recognized in the balance sheet at fair value at the date the derivative contract is entered into and are subsequently measured at their fair value as other assets or other liabilities, respectively. Changes in fair value of derivative financial instruments, which are designated as cash flow hedges and deemed to be effective, are recognized directly in other comprehensive income and classified as 'hedging reserves'. Changes in fair value of a portion of a hedge deemed to be ineffective are recognized in net profit or loss. Hedge effectiveness is measured quarterly.

Amounts previously recognized in other comprehensive income and accumulated in the hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of profit or loss as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income at that time is accumulated in the hedge reserve and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the hedge reserve is recognized immediately in profit or loss.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in our assets after deducting all of its liabilities. Equity instruments issued by us are recorded at the proceeds received, net of direct issue costs.

We have 38,345,394 registered shares authorized and issued with a par value of $0.01 per share at December 31, 2011. These shares provide the holders with rights to dividends and voting rights.

**Provisions**

Provisions are recognized when we have a present obligation as a result of a past event, and it is probable that we will be required to settle that obligation. Provisions are measured at our best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**Dividends**

A provision for dividends payable is recognized when the dividend has been declared in accordance with the terms of the shareholder agreement.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

Dividend per share presented in these consolidated financial statements is calculated by dividing the aggregate dividends declared by all of Scorpio Tankers Inc's subsidiaries by the number of Scorpio Tankers Inc. shares assuming these shares have been outstanding throughout the periods presented.

**Restricted stock**

The restricted stock awards granted to our employees and directors in June 2010 and January 2011 (Note 14) contain only service conditions and are classified as equity settled. Accordingly, the fair value of our restricted stock awards was calculated by multiplying the average of the high and low share price on the grant date and the number of restricted stock shares granted that are expected to vest. We believe that the share price at the grant date serves as a proxy for the fair value of services to be provided by the employees and directors under the plan.

Compensation expense related to the awards is recognized ratably over the vesting period, based on our estimate of the number of awards that will eventually vest. The vesting period is the period during which an employee or director is required to provide service in exchange for an award and is updated at each balance sheet date to reflect any revisions in estimate of the number of awards expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimate, if any, is recognized in the profit or loss statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the accounting policies, we are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgements and estimates are as follows:

***Revenue recognition***

We currently generate all revenue from time charters, spot voyages, or pools. Revenue recognition for time charters and pools is generally not as complex or as subjective as voyage charters (spot voyages). Time charters are for a specific period of time at a specific rate per day. For long-term time charters, revenue is recognized on a straight-line basis over the term of the charter. Pool revenues are determined by the pool managers from the total revenues and expenses of the pool and allocated to pool participants using a mechanism set out in the pool agreement.

We generated revenue from spot voyages during the years ended December 31, 2011 and 2010. Within the shipping industry, there are two methods used to account for spot voyage revenue: (1) ratably over the estimated length of each voyage or (2) completed voyage. The recognition of voyage revenues ratably over the estimated length of each voyage is the most prevalent method of accounting for voyage revenues and the method used by us. Under each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In applying our revenue recognition method, we believe that the discharge-to-discharge basis of calculating voyages more accurately estimates voyage results than the load-to-load basis. Since, at the time of discharge, management generally knows the next load port and expected discharge port, the discharge-to-discharge calculation of spot voyage revenues can be estimated with a greater degree of accuracy.

***Vessel impairment***

We evaluate the carrying amounts of our vessels to determine whether there is any indication that those vessels have suffered an impairment loss. If any such indication exists, the recoverable amount of vessels is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The projection of cash flows related to vessels is complex and requires us to make various estimates including future freight rates, earnings from the vessels and discount rates. All of these items have been historically volatile. As part of our process of assessing the fair value less cost to sell of the vessel, we obtain vessel valuations from leading, independent and internationally recognized ship brokers on an annual basis or when there is an indication that an asset or assets may be impaired. If an indication of impairment is identified, the need for recognising an impairment loss is assessed by comparing the carrying amount of the vessels to the higher of the fair value less cost to sell and the value in use. Likewise, if there is an indication that an impairment loss recognized in prior periods no longer exists or may have decreased, the need for recognizing an impairment reversal is assessed by comparing the carrying amount of the vessels to the latest estimate of recoverable amount.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

At December 31, 2011, the carrying amounts of all our vessels were greater than their fair values less costs to sell (determined taking into consideration three independent broker valuations) which served as indicators of impairment. In line with our policy, for each vessel we performed a value in use calculation where we estimated the vessel's future cash flows based on a combination of the latest forecast time charter rates for the next three years (obtained from a third party service provider), a steady growth rate in freight rates in each period thereafter which is based on management's long-term view of the market, and our best estimate of vessel operating expenses and drydock costs. These cash flows were then discounted to their present value, using a pre-tax discount rate based on our current borrowing rates adjusted for certain credit risks. The value in use calculations for all vessels were less than their fair value less costs to sell and accordingly the recoverable amount of all our vessels was determined to be its fair value less costs to sell. As a result, we recorded an impairment loss of $66.6 million as described further in note 7.

***Vessel lives and residual value***

The carrying value of each of our vessels represents its original cost at the time it was delivered or purchased less depreciation and impairment. We depreciate our vessels to their residual value on a straight-line basis over their estimated useful lives. Effective April 1, 2010, we revised the estimated useful life of our vessels from 20 years to 25 years from the date of initial delivery from the shipyard. The estimated useful life of 25 years is management's best estimate and is also consistent with industry practice for similar vessels. The residual value is estimated as the lightweight tonnage of each vessel multiplied by a forecast scrap value per ton. The scrap value per ton is estimated taking into consideration the historical four year scrap market rate average at the balance sheet date.

An increase in the estimated useful life of a vessel or in its scrap value would have the effect of decreasing the annual depreciation charge and extending it into later periods. A decrease in the useful life of a vessel or scrap value would have the effect of increasing the annual depreciation charge.

When regulations place significant limitations over the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted to end at the date such regulations become effective. The estimated salvage value of the vessels may not represent the fair market value at any one time since market prices of scrap values tend to fluctuate.

***Deferred drydock cost***

We recognize drydock costs as a separate component of the each vessel's carrying amount and amortize the drydock cost on a straight-line basis over the estimated period until the next drydock. We use judgment when estimating the period between drydocks performed, which can result in adjustments to the estimated amortization of the drydock expense. If the vessel is disposed of before the next drydock, the remaining balance of the deferred drydock is written-off and forms part of the gain or loss recognized upon disposal of vessels in the period when contracted. We expect that our vessels will be required to be drydocked approximately every 30 to 60 months for major repairs and maintenance that cannot be performed while the vessels are operating. Costs capitalized as part of the drydock include actual costs incurred at the drydock yard and parts and supplies used in making such repairs.

**Standards and Interpretations in issue not yet adopted**

*Standards and Interpretations adopted during the period*

| | |
|---|---|
| IAS 24 (amended) | *Related party disclosures* |

Improvements to IFRS (May 2010)

This standard did not have an impact on these consolidated financial statements.

*Standards and Interpretations in issue not yet adopted*

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments |
| IFRS 13 | Fair Value Measurement |
| IFRS 12 | Disclosure of Interests in Other Entities |
| IFRS 11 | Joint Arrangements |
| IFRS 10 | Consolidated Financial Statements |
| IAS 27 (revised May 2011) | Separate Financial Statements |
| IAS 32 | Financial Instruments: Presentation |
| Amendments to IFRS 7 (Oct 2010) | Disclosures – Transfers of Financial Assets |
| Amendment to IAS 32 (Oct. 2009) | Classification of Rights Issues |

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

We do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on our financial statements.

**2. Cash and cash equivalents**

| | At December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Cash at banks | $26,678,503 | $18,050,278 |
| Deposits [(1)] | 10,000,000 | 50,000,000 |
| Cash on vessels | 154,587 | 136,624 |
| | $36,833,090 | $68,186,902 |

(1) Represents bank deposits with original maturities of three months or less

**3. Accounts receivable**

| | At December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Scorpio Panamax Tanker Pool Limited | $6,405,190 | $3,277,808 |
| Scorpio Handymax Tanker Pool Limited | 6,062,395 | 1,347,509 |
| Freight receivables | 3,196,485 | 246,007 |
| Scorpio Aframax Tanker Pool Limited | 1,127,251 | 714,078 |
| Scorpio LR2 Tanker Pool Limited | 1,720,264 | - |
| Insurance receivables | 282,142 | 991,606 |
| Other receivables | 1,591,819 | 777,244 |
| | $20,385,546 | $7,354,252 |

Scorpio Aframax Tanker Pool Limited, Scorpio LR2 Tanker Pool Limited, Scorpio Panamax Tanker Pool Limited, and Scorpio Handymax Tanker Pool Limited are related parties, as described in Note 15.

Freight receivables primarily represent amounts collectible from customers for our vessels operating in the spot market. The *STI Coral* and *STI Diamond* were delivered in May 2011 and were operating in the spot market as of December 31, 2011. There were no vessels operating in the spot market at December 31, 2010, though certain vessels did operate in the spot market briefly during the year.

Insurance receivables primarily represent the amounts collectible on our insurance policies in relation to vessel repairs.

We consider that the carrying amount of accounts receivable approximates their fair value due to the short maturity thereof. Accounts receivable are non-interest bearing. At December 31, 2011 and December 31, 2010, no material receivable balances were either past due or impaired.

**4. Prepaid expenses**

| | At December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Vessel related prepaid expenses | 1,231,030 | 146,560 |
| Prepaid insurance | 304,407 | 314,120 |
| | $1,535,437 | $460,680 |

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

The increase in vessel related prepaid expenses relates to the different timing of an annual payment to one of our vendors in comparison to prior year.

**5. Inventories**

| | At December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Lubricating oils | $1,629,053 | $1,267,144 |
| Bunkers | 1,028,225 | - |
| Other | 39,018 | 19,363 |
| | $2,696,296 | $1,286,507 |

The balance in bunkers as of December 31, 2011 relates to the *STI Coral* and *STI Diamond* which were operating in the spot market at year end. We did not have any vessels operating in the spot market on December 31, 2010.

During 2011 and 2010 we recorded $6.9 million and $2.4 million of expense related to the purchase of inventory items.

**6. Vessels**

*Operating vessels and drydock*

| | Vessels | Drydock | Total |
|---|---|---|---|
| Cost | | | |
| As of January 1, 2011 | $379,723,400 | $4,589,021 | $384,312,421 |
| Additions (3) | 70,934,675 | 3,168,355 | 74,103,030 |
| Write off (1) | - | (620,055) | (620,055) |
| As of December 31, 2011 | 450,658,075 | 7,137,321 | 457,795,396 |
| | | | |
| Accumulated depreciation and impairment | | | |
| As of January 1, 2011 | (49,501,513) | (1,385,522) | (50,887,035) |
| Charge for the period | (15,906,544) | (2,291,978) | (18,198,522) |
| Impairment (2) | (66,610,544) | - | (66,610,544) |
| Write off (1) | - | 358,460 | 358,460 |
| As of December 31, 2011 | (132,018,601) | (3,319,040) | (135,337,641) |
| Net Book Value | | | |
| As of December 31, 2011 | $318,639,474 | $3,818,281 | $322,457,755 |
| | | | |
| Cost | | | |
| As of January 1, 2010 | $138,713,588 | 1,680,784 | $140,394,372 |

| | | | |
|---|---|---|---|
| Additions (3) | 241,009,812 | 2,997,820 | 244,007,632 |
| Write off (1) | - | (89,583) | (89,583) |
| As of December 31, 2010 | 379,723,400 | 4,589,021 | 384,312,421 |
| | | | |
| Accumulated Depreciation | | | |
| As of January 1, 2010 | (40,499,502) | (300,603) | (40,800,105) |
| Charge for the period | (9,002,011) | (1,174,502) | (10,176,513) |
| Write off (1) | - | 89,583 | 89,583 |
| As of December 31, 2010 | (49,501,513) | (1,385,522) | (50,887,035) |
| Net Book Value | | | |
| As of December 31, 2010 | 330,221,887 | 3,203,499 | 333,425,386 |

(1) Represents the write off of the net book value of drydock costs for the *STI Harmony* of $223,726, which was drydocked in August 2011 and *STI Highlander* of $37,869 which was drydocked in October 2011. *STI Conqueror* and *STI Heritage* were also drydocked in 2010 and the residual costs written off.

(2) See Note 7 for impairment discussion.

(3) Venice, *STI Harmony* and *STI Highlander* were drydocked during the year ended December 31, 2011 for a total cost of $2.6 million. The remaining additions to drydock of $0.5 million during the year ended December 31, 2011 resulted from the notional drydock calculated on our vessel purchases of *STI Coral* and *STI Diamond* in May 2011. The additions in 2010 relate to costs incurred of $0.9 million during the drydock of the *STI Conqueror* and *STI Heritage* as well as $2.0 million arising from vessel purchases.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

*Delivery of STI Coral and STI Diamond*

On May 10, 2011, we took delivery of two MR product tankers that we previously agreed to acquire for an aggregate purchase price of $70.0 million. The ships were built in 2008 at the STX shipyard in Korea and were charter free at delivery.

*Vessels under construction*

On June 6, 2011, we signed contracts with Hyundai Mipo Dockyard Co. Ltd. of South Korea to construct five MR product tankers for approximately $37.4 million each. The vessels are scheduled to be delivered to the Company July 2012 and September 2012.

On December 21, 2011, we signed another contract with Hyundai Mipo Dockyard Co. Ltd. of South Korea to construct an additional MR product tanker for approximately $36.4 million. This vessel is scheduled to be delivered to the Company in January 2013.

We have made payments of $50.5 million on all six newbuilding vessels as of December 31, 2011. Furthermore, on December 28, 2011 the keels were laid on the first five newbuilding vessels. We made a related progress payment of $9.4 million in January 2012 which was accrued at December 31, 2011. In accordance with IAS 23 “Borrowing Costs”, applicable interest costs are also capitalized during the period that vessels are under construction. As of December 31, 2011, we capitalized $0.6 million (2010: $0) of interest expense attributable to the aforementioned vessels under construction, bringing the total amount capitalized at December 31, 2011 to $60.3 million. The interest capitalized was calculated by applying a rate of 4.4% to expenditure on such assets.

The following table is a timeline of future expected payments and dates as of December 31, 2011*:

| | | |
|---|---|---|
| Q1 2012 | $18.7 | million |
| Q2 2012 | 18.6 | million |
| Q3 2012 | 110.2 | million |
| Q4 2012 | 3.6 | million |
| Q1 2013 | 21.8 | million |
| | $172.9 | million |

*These are estimates only and are subject to change as construction progresses. The Q1 2012 includes the $9.4 million accrued at December 31, 2011.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

*Collateral agreements*

*Noemi, Senatore*, *Venice, STI Harmony, STI Heritage, STI Conqueror, STI Matador*, *STI Gladiator* and *STI Highlander*, with an aggregated net book value of $228.2 million as of December 31, 2011 were provided as collateral under a loan agreement dated June 2, 2010 and amended on July 13, 2011 (the "2010 Revolving Credit Facility", See Note 11).

*STI Spirit,* with a net book value of $37.7 million as of December 31, 2011, was provided as collateral under a loan agreement dated March 9, 2011 (the “STI Spirit Credit Facility”, See Note 11).

*STI Coral* and *STI Diamond,* with a net book value of $56.5 million as of December 31, 2011, were provided as collateral under a loan agreement dated May 3, 2011 (the “2011 Credit Facility”, See Note 11).

The vessels which collateralize the 2011 Credit Facility and 2010 Revolving Credit Facility also serve as collateral for the designated interest rate swap agreements (as described in Note 12), subordinated to the outstanding borrowings under each credit facility.

**7. Impairment of vessels**

At the end of each reporting period, we evaluate the carrying amounts of vessels and related drydock costs to determine if there is any indication that those vessels and related drydock costs have suffered an impairment loss. If such indication exists, the recoverable amount of the vessels and related drydock costs is estimated in order to determine the extent of the impairment loss (if any). As part of this evaluation, we consider certain indicators of potential impairment, such as market conditions including forecast time charter rates and values for second hand product tankers, discounted projected vessel operating cash flows and the Company’s overall business plans.

During 2011, primarily as a consequence of a significant deterioration in market conditions, indicators of potential impairment were identified which triggered the requirement to perform a full impairment review.

At December 31, 2011, we determined fair value less estimated costs to sell for our vessels, taking into consideration three independent broker valuations for each vessel and adjusting for estimated disposal costs. Our estimate of fair value less costs to sell was then compared to each vessel’s respective carrying amount. The fair value less estimated costs to sell were lower than the carrying amount for all vessels indicating that an impairment might exist. We then performed a value in use calculation where we estimated each vessel’s future cash flows based on a combination of the latest forecast time charter rates for the next three years, a steady growth in freight rates in each period thereafter which is based management’s long-term view of the market, and our best estimate of vessel operating expenses and drydock costs. These cash flows were then discounted to their present value, using a discount rate based on our current borrowing rates adjusted for certain credit risks.

The value in use calculations for all vessels were less than the fair value less estimated costs to sell and accordingly, the recoverable amount of all vessels was determined to be its fair value less costs to sell. As a result, we recorded an

impairment loss of $66.6 million to adjust the carrying amounts of our vessels to their fair value less estimated selling costs.

At December 31, 2010, the carrying amounts of our vessels were greater than the independent broker valuations (after adjusting for estimated selling costs) for six of our ten owned vessels, which served as indicators of impairment. In line with our policy, for each of the aforementioned six vessels performed a value in use calculation using similar principles to those outlined above. The value in use calculations were greater than the carrying amounts of the vessels in all instances, which resulted in no impairment being recognized.

At September 30, 2009 the carrying amounts of our vessels were greater than the independent broker valuations (after adjusting for estimate selling costs) for two of our three owned vessels, being the Noemi and Senatore, which served as an indicator of impairment. After performing a value in use calculation it was determined that the recoverable amount for both these vessels was its fair value less costs to sell, the latter determined by taking into consideration the independent broker valuation. As a result, we recorded an impairment loss of $4.5 million to adjust the carrying amounts of our vessels to reflect its fair value less costs to sell. There were no indicators of additional impairment at December 31, 2009.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

## 8. Other assets

| | At December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Scorpio Handymax Tanker Ltd. pool working capital receivables | $2,801,894 | $1,428,376 |
| Upfront loan fees [(1)] | 1,186,883 | - |
| Vessel purchase options | - | 126,337 |
| | $3,988,778 | $1,554,713 |

(1) Primarily represents upfront arrangement fees for our Newbuilding Credit Facility at December 31, 2011. This facility was executed on December 21, 2011 and the fees are being amortized over the period of the facility.

*Working capital contributions*

Upon entrance into the Scorpio Handymax Tanker Pool ("SHTP"), all vessels are required to make working capital contributions of both cash and bunkers. The contribution amount is repaid, without interest, upon a vessel's exit from the SHTP no later than six months after the exit date. Bunkers on board a vessel exiting the SHTP are credited against such repayment at the actual invoice price of the bunkers. At December 31, 2011 we intended to operate our vessels currently in the SHTP for at least a year and have therefore classified the receivables as non-current. Additionally, all amounts due for time chartered-in vessels whose agreements expire over a year from the balance sheet date have been classified as non-current.

*Purchase options*

The agreement to purchase the *STI Spirit* in 2010 also included two separate purchase options with the seller, each option granted us the right, but not the obligation, to purchase a 2008 built Panamax LR1 ice class-1A product tanker for a price of $45.0 million. The combined fair value of the two options was estimated at $126,337 as of December 31, 2010. These options expired unexercised in September 2011, and this amount was written off.

## 9. Accounts payable

| | At December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Progress payments due for vessels under construction | $9,351,375 | $- |
| Suppliers | 2,322,741 | 3,049,744 |
| Scorpio Handymax Tanker Pool Limited | 50,120 | 22,349 |
| Scorpio Ship Management | 8,191 | 101,412 |
| | $11,732,427 | $3,173,505 |

The progress payment of $9.4 million related to our first five newbuilding vessels and was made in January 2012.

The majority of accounts payable are settled with a cash payment within 90 days. No interest is charged on accounts payable. We consider that the carrying amount of accounts payable approximates fair value.

## 10. Accrued expenses

| | At December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Upfront fees due on loan facilities[(1)] | $1,186,883 | $- |
| Other accruals | 2,189,150 | 1,123,351 |
| | $3,376,033 | $1,123,351 |

(1) Primarily represents upfront fees due for our Newbuilding Credit Facility at December 31, 2011. This facility was executed on December 21, 2011 and these fees were paid in February 2012.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

**11. Bank loans**

The following is a breakdown of the current and non-current portion of our bank loans outstanding at December 31, 2011 and 2010:

| | At December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Current portion (1) | $2,888,723 | $15,826,314 |
| Non-current portion (1) | 142,678,788 | 127,362,088 |
| | $145,567,511 | $143,188,402 |

(1) The current portion and non-current portion at December 31, 2011 were net of unamortized deferred financing fees of $1,356,817 and $3,920,203, respectively. The current portion and non-current portion at December 31, 2010 were net of unamortized deferred financing fees of $444,706 and $1,541,474, respectively.

*2010 Revolving Credit Facility*

On June 2, 2010, we executed a credit facility with Nordea Bank Finland plc, acting through its New York branch, DnB NOR Bank ASA, acting through its New York branch, and Fortis Bank Nederland, for a senior secured term loan facility of up to $150 million. On July 12, 2011, we amended and restated the credit facility to convert it from a term loan to a reducing revolving credit facility. This gave us the ability to pay down and re-borrow from the total available commitments under the loan. The total available commitments reduce by $4.1 million each quarter, with a lump sum reduction of $76.0 million at the maturity date of June 2, 2015. Our subsidiaries that own vessels that are collateralized by this loan act as guarantors under the amended and restated credit facility. All terms mentioned are defined in the agreement.

On September 22, 2011 we executed a letter agreement amending certain financial covenants in the credit facility. On December 22, 2011 we entered into a first amendatory agreement with the lenders pursuant to which we amended the interest rate margin and certain financial covenants.

Drawdowns under the credit facility bear interest as follows: (1) through December 29, 2011, at LIBOR plus an applicable margin of 3.00% per annum when our debt to capitalization (total debt plus equity) ratio is equal to or less than 50% and 3.50% per annum when our debt to capitalization ratio is greater than 50%; (2) from December 30, 2011 through September 30, 2013, at LIBOR plus an applicable margin of 3.50% per annum; and (3) from October 1, 2013 and at all times thereafter, at LIBOR plus an applicable margin of 3.25% per annum when our debt to capitalization (total debt plus equity) ratio is equal to or less than 50% and 3.50% per annum when our debt to capitalization ratio is greater than 50%. A commitment fee equal to 40% of the applicable margin is payable on the unused daily portion of the credit facility. The credit facility matures on June 2, 2015 and can only be used to refinance amounts outstanding from the original loan agreement and for general corporate purposes.

The credit facility requires us to comply with a number of covenants, including financial covenants; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with

laws (including environmental); compliance with ERISA (Employee Retirement Income Security Act); maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; approval on changes in the Manager of our initial vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

The financial covenants include:

· The ratio of debt to capitalization shall be no greater than 0.60 to 1.00.

· Consolidated tangible net worth (i.e. total shareholders' equity) shall be no less than US$150,000,000 plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter from July 1, 2010 going forward and 50% of the value of any new equity issues from July 1, 2010 going forward.

· The ratio of EBITDA to interest expense shall be no less than 1.25 to 1.00 commencing with the fourth fiscal quarter of 2011 until the fourth quarter of 2012, at which point it will increase to 1.50 to 1.00 for the first quarter of 2013, 1.75 to 1.00 for the second quarter of 2013, 2.00 to 1.00 at all times thereafter. Such ratio shall be calculated quarterly on a trailing four quarter basis. In addition, we are restricted from paying dividends until our EBITDA to interest expense ratio is 2.00 to 1.00 or greater. EBITDA, as defined in the loan agreement, excludes non-cash charges such as impairment.

· Consolidated liquidity (cash, cash equivalents, and availability under the 2010 Revolving Credit Facility) needs to be not less than $25 million, of which unrestricted cash and cash equivalents shall be not less than $15.0 million, until the Company owns, directly or indirectly, more than 15 vessels, at which time the amount increases by $750,000 per each additional vessel.

· The aggregate fair market value of the collateral vessels (see note 6) shall at all times be no less than 150% of the then aggregate outstanding principal amount of loans under the credit facility.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

In August 2011, we reduced our outstanding balance under the credit facility by $65 million, in September 2011 we drew down $6 million and in December 2011, we reduced the outstanding balance by $34 million and drew down $47 million. The outstanding balance at December 31, 2011 and 2010 was $91.0 million and $145.2 million, respectively. There was $37.9 million available to draw at December 31, 2011 and we were in compliance with the financial covenants relating to this facility as described above.

*STI Spirit Credit Facility*

On March 9, 2011, we executed a credit facility with DVB Bank SE for a senior secured term loan facility of $27.3 million for STI Spirit, which was acquired on November 10, 2010. The credit facility was drawn down on March 17, 2011 and matures on March 17, 2018. On September 28, 2011 we executed a letter agreement and on December 30, 2011 we executed a first amendatory agreement with the lenders pursuant to which we amended certain financial covenants contained in the credit facility. The loan bears interest at LIBOR plus a margin of 2.75% per annum. The loan will be repaid over 28 equal quarterly installments and a lump sum payment at maturity. The quarterly installments commenced three months after the drawdown and were calculated using an 18 year amortization profile. Our subsidiary, STI Spirit Shipping Company Limited, which owns the vessel, is the borrower and Scorpio Tankers Inc. is the guarantor. The outstanding balance at December 31, 2011 was $26.2 million and $0 at December 31, 2010. The credit facility requires us to comply with a number of covenants, including financial covenants; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA (Employee Retirement Income Security Act); maintenance of flag and class of the vessel; restrictions on consolidations, mergers or sales of assets; approval of changes in the Manager of our vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

All terms mentioned are defined in the agreement.

The financial covenants of the credit facility are described below. On September 28, 2011, we executed an amendment modifying the EBITDA to interest expense financial covenant. On December 30, 2011, we entered into a first amendatory agreement modifying certain financial covenants.

· The ratio of debt to capitalization shall be no greater than 0.60 to 1.00.

· Consolidated tangible net worth (i.e. shareholders equity) shall be no less than $ 150.0 million plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter.

· The ratio of EBITDA to interest expense shall be no less than 1.25 to 1.00 for the period commencing with the fourth quarter of 2011 through the fourth quarter of 2012, at which time it will increase to 1.50 to 1.00 for the first quarter of 2013, 1.75 to 1.00 for the second quarter of 2013 and 2.00 to 1.00 at all times thereafter. Such ratio shall be calculated quarterly on a trailing four quarter basis. In addition, we are restricted from paying dividends until our EBITDA to interest expense ratio is 2.00 to 1.00 or greater. EBITDA, as defined in the loan agreement, excludes

non-cash charges such as impairment.

· Consolidated liquidity (cash, cash equivalents, and availability under the 2010 Revolving Credit Facility) needs to be not less than $25 million, of which unrestricted cash and cash equivalents shall be not less than $15.0 million, until the Company owns, directly or indirectly, more than 15 vessels, at which time the amount increases by $750,000 per each additional vessel.

· The aggregate fair market value of the STI Spirit shall at all times be no less than (i) 140% of the then outstanding loan balance if the vessel is operating in a pool or in the spot market or (ii) 130% of the then outstanding loan if the vessel is on time charter with a duration of at least one year.

We were in compliance with the financial covenants relating to this facility as of December 31, 2011.

*2011 Credit facility*

On May 3, 2011, we executed a credit facility with Nordea Bank Finland plc, acting through its New York branch, DnB NOR Bank ASA, acting through its New York branch, and ABN AMRO Bank N.V., for a senior secured term loan facility of up to $150 million. On September 22, 2011 we executed a letter agreement amending certain financial covenants, and on December 22, 2011 we executed a second amendatory agreement with the lenders pursuant to which we extended the availability period and amended the interest rate margin and certain financial covenants.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

All terms mentioned in this section are defined in the agreement.

Drawdowns under this credit facility are available until May 3, 2013 and bear interest as follows: (1) until December 29, 2011, at LIBOR plus an applicable margin of (i) 2.75% per annum when our debt to capitalization (total debt plus equity) ratio is less than 45%, (ii) 3.00% per annum when our debt to capitalization ratio is greater than or equal to 45% but less than or equal to 50% and (iii) 3.25% when our debt to capitalization ratio is greater than 50%; (2) from December 30, 2011 through September 30, 2013, at LIBOR plus an applicable margin of 3.50% per annum and (3) from October 1, 2013 and at all times thereafter, at LIBOR plus an applicable margin of (i) 3.25% per annum when our debt to capitalization (total debt plus equity) ratio is equal to or less than 50% and (ii) 3.50% per annum when our debt to capitalization ratio is greater than 50%. A commitment fee equal to 40% of the applicable margin is payable on the unused daily portion of the credit facility. The credit facility matures on May 3, 2017 and can only be used to finance up to 50% of the cost of future vessel acquisitions, which vessels would be the collateral for the credit facility.

Borrowings for each vessel financed under this facility represent a separate tranche, with repayment terms dependent on the age of the vessel at acquisition. Each tranche under the new credit facility is repayable in equal quarterly installments, with a lump sum payment at maturity, based on a full repayment of such tranche when the vessel to which it relates is sixteen years of age. Our subsidiaries, which may at any time, own one or more of our vessels, will act as guarantors under the credit facility.

The credit facility requires us to comply with a number of covenants, including financial covenants; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA (Employee Retirement Income Security Act); maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; approvals on changes in the Manager of our initial vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

The financial covenants include:

· The ratio of debt to capitalization shall be no greater than 0.60 to 1.00.

· Consolidated tangible net worth (i.e. shareholders' equity) shall be no less than $150.0 million plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter from July 1, 2010 going forward and 50% of the value of any new equity issues from July 1, 2010 going forward.

· The ratio of EBITDA to interest expense shall be no less than 1.25 to 1.00 commencing with the fourth fiscal quarter of 2011 until the fourth quarter of 2012, at which point it will increase to 1.50 to 1.00 for the first quarter of 2013, 1.75 to 1.00 for the second quarter of 2013 and 2.00 to 1.00 at all times thereafter. Such ratio shall be calculated quarterly on a trailing four quarter basis. In addition, we are restricted from paying dividends until our EBITDA to interest expense ratio is 2.00 to 1.00 or greater. EBITDA, as defined in the loan agreement, excludes non-cash charges such as impairment.

· Consolidated liquidity (cash, cash equivalents, and availability under the 2010 Revolving Credit Facility) needs to be not less than $25 million, of which unrestricted cash and cash equivalents shall be not less than $15.0 million, until the Company owns, directly or indirectly, more than 15 vessels, at which time the amount increases by $750,000 per each additional vessel.

· The aggregate fair market value of the collateral vessels shall at all times be no less than 150% of the then aggregate outstanding principal amount of loans under the credit facility.

We were in compliance with the financial covenants relating to this facility as of December 31, 2011.

As of December 31, 2011, $115 million was available to finance up to 50% of the cost of future vessel acquisitions, and the outstanding balance for this facility was $33.6 million.

*Newbuilding financing*

On December 21, 2011, we executed a credit facility agreement with Credit Agricole Corporate and Investment Bank and Skandinaviska Enskilda Banken AB for a senior secured term loan facility of up to $92.0 million. The credit facility may be used only for the partial financing of the pre-delivery and delivery installments of four newbuilding 52,000 DWT MR product tankers that the Company contracted for in June 2011 with Hyundai Mipo Dockyard Co. Ltd. and which are scheduled for delivery between July and September 2012. The newbuilding vessels will be owned individually by certain of our subsidiaries, who together are the borrowers under this credit facility and Scorpio Tankers Inc. is the guarantor. Borrowings under the credit facility bear interest at LIBOR plus an applicable margin of 2.70% per annum. A commitment fee equal to 1.10% per annum is payable on the unused daily portion of the credit facility.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

All terms mentioned in this section are defined in the agreement.

The facility will be made available in four tranches, one for each vessel, each in the amount of $23.0 million, which is approximately 61% of contracted price for each vessel. Drawdowns under each tranche will be available after the first 39% of the contracted price for each vessel is paid by the Company and subject to certain other conditions precedent. The four vessels will be collateral for the credit facility. Repayment of the tranche relating to the respective vessel will commence after delivery of that vessel in quarterly installments of $375,000, which equates to a repayment profile of 15.33 years, and each tranche is scheduled to mature approximately seven years after delivery of the relevant vessel from the shipyard.

The credit facility requires us to comply with a number of covenants, including financial covenants; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA; maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; approvals on changes in the Manager of our initial vessels; limitations on liens; limitations on additional indebtedness; prohibitions on paying dividends if a covenant breach or an event of default has occurred or would occur as a result of payment of a dividend; prohibitions on transactions with affiliates; and other customary covenants.

The financial covenants include:

· The ratio of debt to capitalization shall be no greater than 0.60 to 1.00.

· Consolidated tangible net worth (i.e. shareholders equity) shall be no less than US$ 150,000,000 plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter from July 1, 2010 going forward and 50% of the value of any new equity issues from July 2, 2010 going forward.

· The ratio of EBITDA to interest expense shall be no less than 2.00 to 1.00 commencing with the third fiscal quarter of 2011 until the fourth quarter of 2012, and 2.50 to 1.00 for all times thereafter. Such ratio shall be calculated quarterly on a trailing four quarter basis. EBITDA, as defined in the loan agreement, excludes non-cash charges such as impairment.

· Unrestricted cash and cash equivalents shall at all times be no less than $15.0 million, until the Company owns, directly or indirectly, more than 15 vessels, at which time the amount increases by $750,000 per each additional vessel.

· The aggregate fair market value of the collateral vessels shall at all times be no less than 140% (120% if the vessel is subject to acceptable long term employment) of the aggregate principal amount outstanding plus a pro rata amount of any allocable swap exposure for the credit facility.

There were no borrowings outstanding as of December 31, 2011 under this facility and we were in compliance with the financial covenants related to this facility.

**12. Derivative financial instruments**

*Interest rate swaps*

In August 2011, we entered into six interest rate swap agreements to manage interest costs and the risk associated with changing interest rates on our 2011 and 2010 Credit Facilities with three different banks. Pursuant to these interest rate swap contracts, we agreed to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable us to partially mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. We determined the estimated fair value of our derivatives by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract. The notional principal amounts of these swaps aggregate $75 million, the details of which are as follows:

| Hedged item | Notional amount | Start date | Expiration date | Fixed interest rate | Floating interest rate |
|---|---|---|---|---|---|
| 2010 Credit Facility | $51 million | July 2, 2012 | June 2, 2015 | 1.27% | 3 mo. LIBOR |
| 2011 Credit Facility | $24 million | July 2, 2012 | June 30, 2015 | 1.30% | 3 mo. LIBOR |

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

The vessels which collateralize the 2011 and 2010 Credit Facilities also serve as collateral for the designated interest rate swap agreements, subordinated to the outstanding borrowings under each credit facility.

The following table summarizes the fair value of our derivative financial instruments as of December 31, 2011, which are included in the consolidated Balance Sheet:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Current portion | $(236,987) | $ - |
| Non-current portion | (463,587) | - |
| | $(700,574) | $ - |

The following has been recorded as realized and unrealized losses from changes in the fair value of our derivative financial instruments:

| | Fair value adjustments Statement of profit or loss | | |
|---|---|---|---|
| | Realized (gain)/loss | Unrealized (gain)/loss | Recognized in equity |
| Interest rate swap | $ - | $ - | $ (700,574) |
| Total year ended December 31, 2011 | - | - | (700,574) |
| | | | |
| Interest rate swap | 279,560 | - | - |
| Total year ended December 31, 2010 | $ 279,560 | $ - | $ - |
| | | | |
| Interest rate swap | 808,085 | (956,120) | - |
| Total year ended December 31, 2009 | $ 808,085 | $ (956,120) | $ - |

The realized loss of $279,560 in the year ended December 31, 2010 relates to the loss recorded upon settlement of an interest rate swap in April 2010.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

**13. Segment reporting**

Information about our reportable segments for the years ended December 31, 2011 and December 31, 2010 is as a follows (we did not report segment information for the year ended December 31, 2009 as there was only one reportable segment in this period):

For the year ended December 31, 2011

| | Panamax/LR1 | Handymax | Aframax/LR2 | MR | Operating segments subtotal | Corporate and eliminations | Total |
|---|---|---|---|---|---|---|---|
| Vessel revenue | $31,100,705 | $32,237,902 | $6,484,272 | $12,286,812 | $82,109,691 | $- | $82,109 |
| Vessel operating costs | (14,427,452) | (11,216,406) | (2,547,436) | (3,178,352) | (31,369,646) | - | (31,36 |
| Voyage expenses | (13,383) | (25,760) | - | (6,841,876) | (6,881,019) | - | (6,881 |
| Charterhire | (4,553,829) | (17,357,635) | (838,793) | - | (22,750,257) | - | (22,75 |
| Impairment | (28,616,341)(1) | (12,962,303)(2) | (12,458,512) | (12,573,388)(3) | (66,610,544) | - | (66,61 |
| Depreciation | (9,279,150) | (5,068,401) | (2,074,352) | (2,038,214) | (18,460,117) | - | (18,46 |
| General and administrative expenses | (691,943) | (762,083) | (135,589) | (313,782) | (1,903,397) | (9,733,316) | (11,63 |
| Financial expenses, net | 420 | - | (841,066) | - | (840,646) | (6,168,373) | (7,009 |
| Other expense, net | 22,802 | - | (133,548) | - | (110,746) | (8,222) | (118,9 |
| Segment profit or loss | $(26,458,171) | $(15,154,686) | $(12,545,024) | $(12,658,800) | $(66,816,681) | $(15,909,911) | $(82,72 |

For the year ended December 31, 2010

| | Panamax/LR1 | Handymax | Aframax/LR2 | MR | Operating segments subtotal | Corporate and eliminations | Total |
|---|---|---|---|---|---|---|---|
| Vessel revenue | $29,344,505 | $8,812,130 | $641,278 | $- | $38,797,913 | $- | $38,797 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Vessel operating costs | (12,363,968) | (5,649,736) | (426,788) | | (18,440,492) | | (18,44 |
| Voyage expenses | (253,106) | (2,289,192) | - | - | (2,542,298) | - | (2,542 |
| Charterhire | (275,532) | - | - | - | (275,532) | - | (275,5 |
| Depreciation | (7,493,632) | (2,389,669) | (293,211) | - | (10,176,512) | (2,396) | (10,17 |
| General and administrative expenses | (600,476) | (266,509) | (14,747) | - | (881,732) | (5,318,362) | (6,200 |
| Financial expenses, net | (133,708) | 1,383 | 778 | - | (131,547) | (3,062,814) | (3,194 |
| Other expense, net | (4,420) | - | - | - | (4,420) | (504,346) | (508,7 |
| Realized and unrealized gain/(loss) on derivative financial instruments | (279,560) | - | - | - | (279,560) | - | (279,5 |
| Segment profit or loss | $7,940,103 | $(1,781,593) | $(92,690) | $- | $6,065,820 | $(8,887,918) | $(2,822 |

(1) The impairment charge per vessel within the Panamax/LR1 segment was $6.9 million, $5.5 million, $2.1 million, $7.7 million and $6.4 million, respectively. .

(2) The impairment charge per vessel within the Handymax segment was $4.3 million, $3.1 million, $3.7 million, and $1.9 million, respectively.

(3) The impairment charge per vessel within the MR segment was $6.3 million and $6.3 million, respectively.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

The Panamax/LR1 and Handymax segments each contained revenue from at least one major customer representing greater than 10% of total revenue. The revenue from those customers within their respective segments was:

| Segment | Customer | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Panamax/LR1 | Scorpio Panamax Tanker Pool Limited (1) | $ 22,593,663 | $ 9,645,173 | $ 10,415,331 |
| | King Dustin (1) | 8,507,042 | 8,700,195 | 8,288,767 |
| | Liberty (1) | - | 4,779,605 | - |
| | BP | | 5,937,328 | 8,914,941 |
| Handymax | Scorpio Handymax Tanker Pool Limited (1) | 32,237,901 | 5,177,805 | - |
| | | $ 63,338,607 | $ 34,240,106 | $ 27,619,039 |

(1) These customers are related parties (see note 15)

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**Notes to the consolidated financial statements**

## 14. Common shares

At December 31, 2009, we had 1,500 registered shares authorized and issued with a par value of $1.00 per share. These shares provide the holders with rights to dividends and voting rights.

On March 17, 2010, the board of directors amended and restated the Articles of Incorporation to (i) authorize 275,000,000 registered shares of which 250,000,000 were designated as common shares with a par value of $0.01 and 25,000,000 were designated as preferred shares with a par value of $0.01, and (ii) authorize a stock split of 3,726.098 to 1 for the issued and outstanding common shares, which increased the number of shares from 1,500 common shares issued and outstanding to 5,589,147 common shares issued and outstanding. All common share amounts in the consolidated financial statements for 2009 and 2010 have been retroactively adjusted, including the share amounts used in the calculation of earnings per share, to give effect to the stock split.

On April 6, 2010, we completed an initial public offering of our common shares on the New York Stock Exchange. In connection with the offering, we issued and sold 12,500,000 additional common shares. In addition, we listed our existing shares. The costs related to the listing of our existing shares of $0.5 million in the year ended December 31, 2010 were expensed and included in Other expenses, net in the consolidated statement of profit or loss. On May 4, 2010, the underwriters of the initial public offering exercised their over-allotment option to purchase an additional 450,000 shares. Net proceeds from the issuance of the common shares of 12,950,000, which included the over-allotment, were $154.8 million Prior to the offering, the Lolli-Ghetti Family, of which Emanuele Lauro, our Chairman and Chief Executive Officer, is a member, owned 100% of our outstanding common shares and held a controlling interest in Scorpio Tankers Inc. Total fees and commissions relating to the initial public offering and exercise of the over-allotment option were $14.2 million, of which, $0.7 million were recognized as expense in the profit or loss statement ($0.2 million in 2009 and $0.5 million in 2010) as being related to the registration of existing shares and the remaining $13.5 million were recorded as a reduction to additional paid in capital.

On November 22, 2010, we completed a follow on public offering of 4,575,000 shares of common stock at $9.80 per share. After deducting underwriters' discounts and paying offering expenses, the net proceeds were approximately $41.8 million. On December 2, 2010, we closed the issuance of 686,250 shares of common stock at $9.80 and received $6.4 million, after deducting underwriters' discounts, when the underwriters in our follow on public offering exercised their over-allotment option. In addition, 510,204 shares were issued at the follow on public offering price in a concurrent private placement to a member of the Lolli-Ghetti family for total proceeds of $5.0 million. Total fees and commissions relating to the follow-on offering and exercise of the over-allotment option were $3.4 million and were recorded as a reduction to additional paid in capital.

On May 18, 2011, we closed on a follow-on public offering of 6,000,000 shares of common stock at $10.50 per share. On the same day, the underwriters exercised their over-allotment option to purchase an additional 900,000 shares at $10.50 per share After deducting underwriters’ discounts and paying offering expenses, the net proceeds of the follow-on public offering and the over-allotment were approximately $68.5 million. Total fees and commissions relating to the follow-on offering and exercise of the over-allotment option were $4.0 million and were recorded as a reduction to additional paid-in capital.

On December 6, 2011, the Company closed on the sale 7,000,000 shares of its common stock in an underwritten public offering at the offering price of $5.50 per share. The Company received net proceeds of approximately $36.5 million, after deducting underwriters' discounts and offering expenses. Total fees and commissions relating to the follow-on offering and exercise of the over-allotment option were $2.0 million and were recorded as a reduction to additional paid-in capital.

*Stock buyback plan*

On July 9, 2010, the board of directors authorized a share buyback program of $20.0 million. We repurchase these shares in the open market at the time and prices that we consider to be appropriate. As of December 31, 2011 and December 31, 2010, 723,665 and 244,146 shares have been purchased under the plan at an average price of $7.5981 and $10.8452 per share, respectively including commissions. As of December 31, 2011, the remaining stock buyback authorization was $14.5 million.

*Restricted stock issuance*

On June 18, 2010, we issued 559,458 shares of restricted stock to our employees for no cash consideration. The share price at the date of issue was $10.99 per share. The vesting schedule of the restricted stock for the executive officers is (i) one-third of the shares vest on April 6, 2013, (ii) one-third of the shares vest on April 6, 2014, and (iii) one-third of the shares vest on April 6, 2015. Compensation expense is recognized ratably over the vesting periods for each tranche using the straight-line method.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

On January 31, 2011, we issued 281,000 shares of restricted stock to the employees for no cash consideration. The share price at the date of issue was $9.83 per share. The vesting schedule of the restricted stock is (i) one-third of the shares vest on January 31, 2012, (ii) one-third of the shares vest on January 31, 2013, and (iii) one-third of the shares vest on January 31, 2014. Compensation expense is recognized ratably over the vesting periods for each tranche using the straight-line method.

On January 31, 2011, we issued 9,000 shares of restricted stock to our independent directors for no cash consideration. The share price at the date of issue was $9.83 per share. These shares vested on January 31, 2012.

On April 6, 2011, 9,000 shares of restricted stock vested at $10.475 per share.

Assuming that all the restricted stock will vest, the stock compensation expense in future periods, including that related to restricted stock issued in prior periods will be:

| | Employees | Directors | Total |
|---|---|---|---|
| For the year ending December 31, 2012 | $2,546,398 | $ 7,373 | $2,553,770 |
| For the year ending December 31, 2013 | 1,497,055 | - | 1,497,055 |
| For the year ending December 31, 2014 | 588,424 | - | 588,424 |
| For the year ending December 31, 2015 | 106,929 | - | 106,929 |
| | $4,738,806 | $ 7,373 | $4,746,178 |

*Shelf registration statement*

On May 4, 2011, we filed a Form F-3 with the Securities and Exchange Commission, which can be used to issue common shares, preferred shares, debt securities, which may be guaranteed by one or more of our subsidiaries, warrants, purchase contracts, and units for up to $500 million in aggregate. As of December 31, 2011 we had issued common shares worth $111.0 million from the May 11, 2011 shelf registration.

*Merger reserve*

In June 2011, our board of directors authorized the reclassification of the merger reserve of $13.3 million within shareholders' equity to retained earnings/accumulated deficit. The merger reserve was initially set up to identify the retained earnings/accumulated deficit brought in with the three vessels transferred by Simon and has been reclassified as there are no requirements in the Marshall Islands to maintain a separate merger reserve or to separately identify the retained earnings/accumulated deficit created subsequent to the transfer.

*Shares outstanding*

As of December 31, 2011 we had 38,345,394 shares outstanding.

**15. Related party transactions**

Transactions with subsidiaries of Simon (herein referred to as Simon subsidiaries) and transactions with entities outside of Simon but controlled by the Lolli-Ghetti family (herein referred to as related party affiliates) in the consolidated profit or loss statement and balance sheet are as follows:

| | For the year ended December 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Pool revenue(1) | | | |
| Scorpio Panamax Tanker Pool Limited | 22,593,663 | 9,645,173 | 10,415,332 |
| Scorpio Handymax Tanker Pool Limited | 32,237,901 | 5,177,805 | - |
| Scorpio LR2 Pool Limited | 5,194,689 | - | - |
| Scorpio Aframax Tanker Pool Limited | 170,224 | 641,278 | - |
| Time charter revenue(2) | | | |
| King Dustin | 8,507,042 | 8,700,195 | 8,288,767 |
| Liberty and subsidiaries | - | 4,779,605 | - |
| Vessel operating costs(3) | (2,202,870 ) | (1,058,699) | (600,000 ) |
| Commissions(4) | (270,069 ) | (233,546 ) | - |
| General and administrative expenses(5) | (1,936,567 ) | (932,460 ) | (344,162 ) |
| Other(6) | - | (130,602 ) | - |

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

(1) These transactions relate to revenue earned in the Scorpio Panamax, Scorpio LR2, Scorpio Aframax and Scorpio Handymax Tanker Pools (the Pools). The Pools are operated by Scorpio Panamax Tanker Pool Limited, Scorpio LR2 Tanker Pool Limited, Scorpio Aframax Pool Limited, and Scorpio Handymax Tanker Pool Limited, respectively which are Simon subsidiaries.

(2) The revenue earned was for *Noemi's* time charter with King Dustin (which is 50% jointly controlled by a Simon subsidiary). In 2010, the *STI Harmony* and *STI Heritage* were on a time charter with Liberty, a Simon subsidiary. See Note 16 for the terms of this time charter.

(3) These transactions represent technical management fees charged by SSM, a related party affiliate, and included in the vessel operating costs in the consolidated profit or loss statement. We believe our technical management fees for the years ended December 31, 2011, 2010 and 2009 were at market rates because they were the same rates charged to other vessels managed by SSM. Each vessel pays $548 per day for technical management, which is, as noted, consistent with that charged to third parties by SSM.

(4) These transactions represent the expense due to SCM for commissions related to the commercial management services provided by SCM under the Commercial Management Agreement (see description below). Each of the vessels pays a commission of 1.25% of their revenue when not in the Pools. When our vessels are in the Pools, SCM, the pool manager, charges all vessels in the Pools (including third party participants) a commission of 1.25% of their revenue and $250 per day for Panamax/LR1 and Aframax/LR2 vessels and $300 per day for Handymax vessels. We believe that the commercial management agreement represents a market rate for such services.

There were no charges related to these services for the year ended December 31, 2009. We estimate that the commissions on its fees for years ended December 31, 2009 would have been $215,046 and would have decreased net income for the period by the same amount if we operated as an unaffiliated entity. Our estimate is based upon the rates charged by SCM to third party participants in the pools for 2009.

(5) We pay our administrator a fixed monthly fee calculated at cost with no profit for providing us with administrative services, and reimburse it for the reasonable direct or indirect expenses it incurs in providing us with such services. SSM provided administrative services to us under this agreement until September 30, 2010. From October 1, 2010, SCM has provided us administrative services under this agreement. The administrative fee included services provided to us for accounting, administrative services, information technology and management.

Our Commercial Management Agreement with SCM includes a daily flat fee charged payable to SCM for the vessels that are not in one of the pools managed by SCM. The flat fee is $250 per day for Panamaxes/LR1 and Aframax/LR2 vessels and $300 per day for Handymax and MR vessels. The flat fee is the same rate charged by SCM for vessels in the pools managed by SCM.

· The expense for the year ended December 31, 2011 of $1,936,567 included the flat fee of $268,331 charged by SCM and administrative fees of $1,668,236 charged by Liberty and are both included in general and administrative expenses in the consolidated profit or loss statement.

· The expense for the year ended December 31, 2010 of $932,460 included the flat fee of $203,405 charged by SCM and administrative fees of $729,055 charged by Liberty and are both included in general and administrative expenses in the consolidated profit or loss statement.

· The expense for the year ended December 31, 2009 of $344,162 included fees of $70,418 charged by SCM and $273,744 charged by SSM for administrative services under the previous administrative agreement. The fees charged

by SCM for the year ended December 31, 2009 were not at market rates. We estimate the fees charged by SCM for the year ended December 31, 2009 would have been $182,500 and would have decreased net income by $112,082 had they been incurred at estimated market rates.

(6) In accordance with our Administrative Services Agreement with Liberty, we have to reimburse Liberty for any direct expenses. These transactions represent reimbursements of $130,602 to Liberty for the year ended December 31, 2010 for expenses related to the registration of the existing shares in the initial public offering which closed on April 6, 2010. In addition, $344,490 related to expenses for the registration of the shares in the initial public offering were recorded as an offset against the proceeds from the offering. The cash payment was made in 2010.

· Furthermore, the Administrative Services Agreement with Liberty includes a fee for arranging vessel purchases and sales, on our behalf, equal to 1% of the gross purchase or sale price, payable upon the consummation of any such purchase or sale. These fees are capitalized as part of the carrying value of the related vessel. In the year ended December 31, 2011, we paid Liberty an aggregate fee of $700,000 in May 2011 for the purchase of the *STI Coral* and *STI Diamond*. In the year ended December 31, 2010, we paid Liberty an aggregate fee of $2.4 million for the purchases of the *STI Harmony*, *STI Heritage*, *STI Conqueror, STI Matador, STI Gladiator, STI Highlander* and *STI Spirit.*

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

We had the following balances with related parties, which have been included in the consolidated balance sheets:

| | As of December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Assets: | | |
| Accounts receivable (due from the Pools) | $18,102,105 | $6,767,770 |
| Accounts receivable (SSM) | - | 117 |
| Accounts receivable (SCM) | - | 3,463 |
| Liabilities: | | |
| Accounts payable (owed to the Pools) | 50,120 | 22,349 |
| Accounts payable (SSM) | 8,191 | 101,412 |
| Accounts payable (SCM) | 51,994 | - |

In 2011, the Company also entered into an agreement to reimburse costs to SSM as part of its supervision agreement for newbuilding vessels. No amounts have been charged under this agreement as of December 31, 2011.

**Key management remuneration**

Prior to April 6, 2010, our executive management services were provided by a related party affiliate and included in the management fees described in (5) above. If we were not part of Simon, and had the same ownership structure and a contract for administrative services for the periods up to April 6, 2010, we estimate our executive management remuneration would have been comparable with the executive management remuneration presented within general and administrative expenses in subsequent periods. The table below therefore depicts key management remuneration for the periods April 6, 2010 through December 31, 2010 and the year ended December 31, 2011 as follows:

| | As of December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Short-term employee benefits (salaries) | $2,874,864 | $2,059,907 |
| Share-based compensation | 3,189,170 | 922,123 |
| Total | 6,064,034 | 2,982,030 |

(1) Represents the amortization of restricted stock issued under our equity incentive plans in June 2010 and January 2011. See note 14.

There are no post employment benefits.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

**16. Vessel revenue**

During the years ended December 31, 2011, 2010, and 2009 we had two, four, and two vessels respectively that earned revenue through time charter contracts. As of December 31, 2011, there were no vessels on time charter contracts. The remaining revenue was generated from vessels operating in pools or in the spot market.

*Revenue Sources*

`

| | For the year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Time charter revenue | 9,626,401 | 19,417,128 | $ 17,203,709 |
| Pool revenue | 60,196,478 | 15,464,256 | $ 10,415,332 |
| Voyage revenue | 12,286,812 | 3,916,529 | $ - |
| | 82,109,691 | 38,797,913 | $ 27,619,041 |

*Time charter out contracts:*

| | Time Charter Out | | |
|---|---|---|---|
| Vessel | From | To | Daily rate |
| Noemi (1) | Jan 2007 | Dec 2011 | $ 24,500 |
| Senatore (2) | Sep 2007 | Aug 2010 | $ 26,000 |
| STI Spirit (3) | Jan 2011 | Mar 2011 | $ 15,000 |
| STI Harmony (4) | Jun 2010 | Sep 2010 | $ 25,500 |
| STI Heritage (4) | Jun 2010 | Nov 2010 | $ 25,500 |

(1) The time charter contract with the *Noemi* was terminated on December 22, 2011.

(2) The time charter contract with the *Senatore* was terminated on August 26, 2010.

(3) The *STI Spirit* was on a short term time charter from January 11, 2011 through March 3, 2011 at a charterhire rate of $15,000 per day. From March 4, 2011 through March 26, 2011, the date the vessel entered the Scorpio LR2 Pool, the charterhire rate increased to $17,000 per day.

(4) *STI Harmony* and *STI Heritage* were acquired in June 2010 with existing time charter contracts that commenced in October 2007 and January 2008, respectively. The vessels were chartered to subsidiaries of Liberty, which are related parties. `

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

**17. Charterhire**

On December 12, 2010 we took delivery of the *BW Zambesi*, a 2010 built LR1 product tanker, on a time charter-in agreement for one year at a rate of $13,850 per day with an option to extend for an additional year at a rate of $14,850 per day. This vessel was redelivered to its owners on November 30, 2011.

On January 26, 2011, we took delivery of the *Kraslava*, a 2007 built Handymax ice-class 1B product tanker on a time charter-in arrangement for one year at a rate of $12,070 per day. In December 2011, this agreement was extended one month to February 26, 2012 and additional option periods were negotiated. The first option period on this vessel was exercised, extending the expiry date five months from February 26, 2012 to July 26, 2012. Subsequent to that, the Company has two consecutive optional periods of three and three months, respectively, at the current base rate of $12,070 per day. This vessel is currently operating in the Scorpio Handymax Tanker Pool.

On February 6, 2011 we took delivery of the *Histria Azure*, a 2007 built Handymax product tanker, on a time charter-in arrangement for one year at a rate of $12,250 per day. As of December 31, 2011, this vessel was off-hire and is expected to be re-delivered to the Company in April 2012. During 2011, this vessel operated in the Scorpio Handymax Tanker Pool from delivery through September 13, 2012 was off-hire for the remainder year. We have extended the term of the charter for this vessel for one year after the vessel is re-delivered to us at $12,000 per day. Pursuant to this charter agreement, we have an option to extend the term of the charter for four additional months at $12,250 per day and a second option to further extend the term of the charter agreement for an additional year at $13,650 per day.

On March 1, 2011, we took delivery of the *Krisjanis Valdemars*, a 2007 built Handymax ice-class 1B product tanker on a time charter-in arrangement for 10 months at a rate of $12,000 per day. The agreement also includes a profit and loss sharing provision whereby 50% of all profits and losses (the difference between the vessel's pool earnings and the charter hire expense) will be shared with the owner of the vessel. In December 2011 we negotiated an extension and several option periods to this agreement. The extension was a two month extension expiring on February 14, 2012. The first option period on this vessel was exercised, extending the expiry date four months from February 14, 2012 to June 14, 2012. Subsequent to that, the Company has two consecutive optional periods of three and three months, respectively, at the base rate of $12,000 per day. During the year ended December 31, 2011, $9,302 was due to us under this profit and loss sharing agreement. This vessel is currently operating in the Scorpio Handymax Tanker Pool.

On May 27, 2011, we took delivery of the *Kazdanga*, a 2007 built Handymax ice class 1B product tanker for one year at a rate of $12,345 per day with an option to extend the charter for an additional year at a rate of $13,335 per day. This vessel is currently operating in the Scorpio Handymax Tanker Pool.

We took delivery of two time chartered-in vessels in July 2011. The *Histria Perla*, a 2005 built Handymax product tanker and was delivered on July 15, 2011 and the *Histria Coral*, a 2006 built Handymax product tanker was delivered on July 17, 2011. Each vessel has been chartered-in for two years at a rate of $12,750 and $13,250 per day for the first and second years, respectively. Each charter agreement includes an option for the Company to extend the charter for an additional year at a rate of $14,500 per day.

On October 24, 2011, we took delivery of a 2006 built LR2 product tanker , the *Khawr Aladid*. The vessel was chartered-in for six months at $12,000 per day, and we currently have an option to extend the charter for a period of six months from delivery at $13,000 per day.

The undiscounted remaining future minimum lease payments under these arrangements as of December 31, 2011 are $26.9 million. The obligations under these agreements will be repaid as follows:

| | As of December 31 | |
|---|---|---|
| | 2011 | 2010 |
| Less than 1 year | $21,003,620 | $16,537,830 |
| 1-5 years | 5,943,250 | 767,070 |
| 5+ years | - | - |
| | $26,946,870 | $17,304,900 |

The total expense recognized under charter hire agreements during the year ended December 31, 2011 was $22.8 million $0.3 million during the year ended December 31, 2010 and $3.1 million during the year ended December 31, 2009.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

**18. Vessel operating costs**

Vessel operating costs primarily represent crew related costs, stores, routine maintenance and repairs, insurance, technical management fees, and other related costs. The procurement of these services is managed on our behalf by our technical manager, SSM (see Note 15).

**19. General and administrative expenses**

General and administrative expenses primarily represent employee benefit expenses, professional fees and administration/commercial management fees (see note 15). Employee benefit expenses consist of:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Short term employee benefits | $3,796,051 | $2,389,952 | $ - |
| Share based compensation (see note 14) | 3,362,345 | 988,273 | - |
| | $7,158,396 | $3,378,225 | $ - |

**20. Financial expenses**

Financial expenses comprise:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Interest payable on bank loans | $4,950,587 | $2,984,765 | $699,115 |
| Commitment fees on undrawn portions of bank loans | 1,123,559 | - | - |
| Amortization of deferred financing fees | 985,881 | 246,130 | - |
| Total Financial Expenses | $7,060,027 | $3,230,895 | $699,115 |

21. Tax

Scorpio Tankers Inc. and its subsidiaries are incorporated in the Republic of the Marshall Islands, and in accordance with the income tax laws of the Marshall Islands, are not subject to Marshall Islands' income tax. We are also exempt from income tax in other jurisdictions including the United States of America due to tax treaties; therefore, we did not have any tax charges, benefits, or balances as of or for the periods ended December 31, 2011, 2010 and 2009.

**22. (Loss)/Earnings per share**

The calculation of both basic and diluted loss/earnings per share is based on net loss/income attributable to equity holders of the parent and weighted average outstanding shares of:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Net (loss)/income attributable to equity holders of the parent | $(82,726,593) | $(2,822,098 ) | $3,418,037 |
| Basic and diluted weighted average number of shares | 28,704,876 | 15,600,813 | 5,589,147 |

The weighted average number of shares assumes the retroactive adjustment resulting from our stock split which occurred on March 17, 2010 and was effective during the year ending December 31, 2010.

The Company incurred a loss in the years ended December 31, 2011 and 2010. As a result, the inclusion of potentially restricted shares in the diluted loss per share calculation would have an antidilutive effect on the loss per share for the period. Therefore, all potentially dilutive items have been excluded from the diluted loss per share calculation for these periods. There were no potentially dilutive shares outstanding for the year ended December 31, 2009 nor were there any antidilutive instruments excluded from the calculation in that year.

23. Financial instruments

**Funding and capital risk management**

We manage our funding and capital resources to ensure our ability to continue as a going concern while maximizing the return to the shareholder through optimization of the debt and equity balance.

**Categories of financial instruments**

| | Carrying value As of December 31 | |
|---|---|---|
| | 2011 | 2010 |
| Financial assets | | |
| Cash and cash equivalents | $36,833,090 | $68,186,902 |
| Loans and receivables | 23,187,440 | 8,782,628 |
| | | |
| Financial liabilities | | |
| Derivatives designated in a cash flow hedge | 700,574 | - |
| Other liabilities (at amortized cost) | 160,675,971 | 147,485,258 |

Derivative financial instruments in 2011, 2010 and 2009, solely comprised of interest rate swaps, where at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates to determine the fair value.

IFRS 7 requires classification of fair value measures into Levels 1, 2 and 3. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). In accordance with IFRS 7, the fair value measurement for the interest rate swaps in 2011, 2010 and 2009 were classified as Level 2.

The fair value of other financial assets and liabilities are approximately equal to their carrying values.

**Financial risk management objectives**

We identify and evaluate significant risks on an ongoing basis with the objective of managing the sensitivity of our results and financial position to those risks. These risks include market risk, credit risk and liquidity risk.

The use of financial derivatives is governed by our policies as approved by the board of directors.

**Market risk**

Our activities expose us to the financial risks of changes in interest rates. See Note 11 for a description of the interest rate risk.

In the years ended December 31, 2011, 2010 and 2009, we were party to interest rate swaps to mitigate the risk of rising interest rates. In August 2011, we entered into six interest rate swap agreements to manage interest costs and the

risk associated with changing interest rates on our 2011 and 2010 Credit Facilities with three different banks. Additionally, in April 2010, we paid $1.9 million to settle an interest rate swap that was entered into in April 2005.

Details of the amounts recorded in the consolidated statement of profit or loss and statement of other comprehensive income in respect of such instruments are provided in note 12.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

***Sensitivity analysis – Interest rate risk***

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year.

If interest rates had been 1% higher/lower and all other variables were held constant, our net income for the year ended December 31, 2011 would have decreased/increased by $1.6 million. This is mainly attributable to our exposure to interest rate movements on our 2010 Revolving Credit Facility, 2011 Credit Facility and STI Spirit Credit Facility.

If interest rates had been 1% higher/lower and all other variables were held constant, our net income for the years ended December 31, 2010 and 2009 would have decreased/increased by $0.7 million and $1.0 million. This is mainly attributable to our exposure to interest rate movements in our 2010 Revolving Credit Facility (2010) and for the portion of the 2005 Credit Facility that was not hedged by the interest rate swap in place at the time (2009).

**Credit risk**

Credit risk is the potential exposure of loss in the event of non-performance by customers and derivative instrument counterparties.

We only place cash deposits with major banks covered with strong and acceptable credit ratings.

Accounts receivable are generally not collateralized; however, we believe that the credit risk is partially offset by the creditworthiness of our counterparties including the commercial and technical managers. We did not experience material credit losses on our accounts receivables portfolio in the years ended December 31, 2011, 2010 and 2009.

The carrying amount of financial assets recognized in the consolidated financial statements represents the maximum exposure to credit risk without taking account of the value of any collateral obtained. We did not experience any impairment losses on financial assets in the years ended December 31, 2011, 2010 and 2009.

We monitor exposure to credit risk, and believe that there is no substantial credit risk arising from counterparties.

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

We manage liquidity risk by maintaining adequate reserves and borrowing facilities and by continuously monitoring forecast and actual cash flows.

Current economic conditions make forecasting difficult, and there is the possibility that our actual trading performance during the coming year may be materially different from expectations. We are sensitive to future freight rates and the proceeds from the sale of the two vessels, (see Note 24), which we believe will close as scheduled. We believe we will have sufficient cash balances to meet our commitments (including but not limited to newbuilding instalments, debt service obligations and charterhire commitments) for the next 12 months while complying with all the terms of our loan facilities. In reaching this conclusion we have assumed that the vessel sales described in note 24 proceed to completion. In the unlikely event that these transactions do not complete, we have alternatives such as selling the vessels to other parties.

Based on internal forecasts and projections that take into account reasonably possible changes in our trading performance, we believe that we have adequate financial resources to continue in operation for a period of at least twelve months from the date of approval of these consolidated financial statements. Accordingly, we continue to adopt the going concern basis in preparing our financial statements.

***Remaining contractual maturity on secured bank loan (Note 11)***

The following table details our remaining contractual maturity for our secured bank loan. The amounts represent the future undiscounted cash flows of the financial liability based on the earliest date on which we can be required to pay. The table includes both interest and principal cash flows and takes into consideration the amount fixed via the interest rate swap discussed above.

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As the interest cash flows are not fixed, the interest amount included has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

To be repaid as follows:

| | As of December 31 | |
|---|---|---|
| | 2011 | 2010 |
| Less than 1 month | $- | $- |
| 1-3 months | 2,768,324 | 6,101,892 |
| 3 months to 1 year | 8,376,320 | 17,591,716 |
| 1-5 years | 126,826,820 | 147,705,129 |
| 5+ years | 39,685,962 | - |
| | $177,657,426 | $171,398,738 |

The following table details our remaining contractual maturity for our interest rate swaps. The amounts represent the future undiscounted cash flows of the financial liability based on the earliest date on which we can be required to pay.

| | As of December 31 | |
|---|---|---|
| | 2011 | 2010 |
| Less than 1 month | $- | $ - |
| 1-3 months | - | - |
| 3 months to 1 year | 238,281 | - |
| 1-5 years | 468,727 | - |
| 5+ years | - | - |
| | $707,008 | $ - |

**24. Subsequent events**

***January 2012 restricted stock issuance***

On January 31, 2012, we issued 281,000 shares of restricted stock to the employees for no cash consideration. The share price at the date of issue was $5.65 per share. The vesting schedule of the restricted stock is (i) one-third of the shares vest on January 31, 2013, (ii) one-third of the shares vest on January 31, 2014, and (iii) one-third of the shares vest on January 31, 2015. Compensation expense will be recognized ratably over the vesting periods for each tranche using the straight-line method.

On January 31, 2012, we issued 9,000 shares of restricted stock to our independent directors for no cash consideration. The share price at the date of issue was $5.65 per share. These shares vest on January 31, 2013.

***Time chartered-in vessels***

In February 2012, we agreed to charter-in a 2009 built MR product tanker (46,697 DWT), the *Pacific Duchess*. The vessel will be chartered-in for one year at $13,800 per day and was delivered on March 17, 2012. The agreement includes an option to extend the charter for an additional year at $14,800 per day.

In February 2012, we agreed to charter-in a 2007 built MR product tanker (49,999 DWT), the *Targale*. The vessel will be chartered in for two years at $14,500 per day and is expected to be delivered in May 2012. The agreement includes three consecutive options to extend the charter for up to three consecutive one year periods at $14,850 per day, $15,200 per day and $16,200 per day, respectively.

In March 2012, we agreed to charter-in a 2010 built MR product tanker (46,697 DWT), the *Pacific Marchioness*. The vessel will be chartered-in for one year at $13,900 per day and is expected to be delivered in April 2012. The agreement includes an option to extend the charter for an additional year at $14,900 per day.

In March 2012, we agreed to charter-in a 2007 built MR product tanker (46,161 DWT), the *STX Ace6*. The vessel will be chartered-in for two years at $14,150 per day and is expected to be delivered in May 2012. The agreement includes an option to extend the charter for an additional year at $15,150 per day.

**Scorpio Tankers Inc. and Subsidiaries**

**Notes to the consolidated financial statements**

In March 2012, we agreed to charter-in a 2012 built MR product tanker (50,385 DWT), the *Freja Lupus*. The vessel will be chartered-in for two years at $14,760 per day and is expected to be delivered in April, 2012. The agreement includes an option to extend the charter for an additional year at $16,000 per day.

***Vessel sales***

In February 2012, we entered into agreements to sell three of our Handymax vessels: the *STI Conqueror* for $21.0 million, the *STI Gladiator* for $16.2 million, and the *STI Matador* for $16.2 million. The sale of the *STI Conqueror* closed on March 20, 2012 and the sales of the *STI Gladiator* and *STI Matador* are expected to close in April 2012. We have received deposits of 10% of the purchase price on the sales of the *STI Gladiator* and *STI Matador* as of the date of this report. In connection with these sales, the availability of the Company's 2010 Credit Facility will decrease by approximately $31.0 million.

As part of the sale of all three vessels, the Company will record a $4.0 million loss on disposal in the first quarter of 2012. Additionally, approximately $0.5 million of deferred financing fees attributable to the 2010 Revolving Credit Facility will be written off upon closing of the sale.

***Newbuilding vessel***

In February 2012, we signed a contract with Hyundai to construct a newbuilding vessel for $36.0 million, which is our seventh MR newbuilding product tanker with Hyundai. The seventh newbuilding is scheduled to be delivered in April 2013.

Our commitments under all newbuilding vessel agreements, including the seventh newbuilding are as follows:

| | |
|---|---|
| Q1 2012 | $22,302,750 * |
| Q2 2012 | 22,202,200 |
| Q3 2012 | 113,845,675 |
| Q4 2012 | 7,240,000 |
| Q1 2013 | 21,840,000 |
| Q2 2013 | 21,600,000 |
| | $209,030,625 |

* This amount has been fully paid as of the date of this annual report.

***SCORPIO TANKERS INC.***