Scorpio Tankers Inc.
Form 20-F
April 21, 2011

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

FORM 20-F

(Mark One)

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2010**

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

o 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, 2010, there were 24,879,059 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.

(1)

Yes o No x

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 o No x

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 x No o

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 o No o

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 o

Accelerated filer o

Non-accelerated filer x

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

U.S. GAAP o

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

Other o

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

Item 17 o 18 o

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 o No x

SCORPIO TANKERS INC.
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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, plan, potential, may, should, expect, 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. 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.

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, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 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, 2008 and 2007 and for the period ended December 31, 2007 is derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB, and which are not presented herein. The selected financial data for 2006 has not been derived from audited financial statements as consolidated financial statements of the Company for 2006 do not exist. Rather, the selected financial data for 2006 has been prepared by aggregating the historical stand alone IFRS financial information of each of the three subsidiaries which were transferred to us on October 1, 2009.

Prior to October 1, 2009, our historical consolidated financial statements were prepared on a carve-out basis from the financial statements of our parent company, Liberty Holding Company Ltd., or 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, which are parties related to us, consisting of 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, Liberty, which provides us with administrative services; and 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 the historical consolidated financial statements included elsewhere in this annual report.

	For the year ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Consolidated Income Statement Data					
Revenue:					
Vessel revenue	$ 38,797,913	$ 27,619,041	$ 39,274,196	$ 30,317,138	$ 35,751,632
Operating Expenses:					
Vessel operating costs	(18,440,492)	(8,562,118)	(8,623,318)	(7,600,509)	(7,061,514)
Voyage expenses	(2,542,298)				
Charter hire	(275,532)	(3,072,916)	(6,722,334)		
Impairment (1)		(4,511,877)			
Depreciation	(10,178,908)	(6,834,742)	(6,984,444)	(6,482,484)	(7,058,093)
General and administrative expenses	(6,200,094)	(416,908)	(600,361)	(590,772)	(376,338)
Total operating expenses	(37,637,324)	(23,398,561)	(22,930,457)	(14,673,765)	(14,495,945)
Operating Income	1,160,589	4,220,480	16,343,739	15,643,373	21,255,687
Other expense and income, net					
Interest expense bank loan	(3,230,895)	(699,115)	(1,710,907)	(1,953,344)	(3,041,684)
Realized gain/(loss) on derivative financial instruments	(279,560)	(808,085)	(405,691)	(523,694)	133,647
Unrealized gain/(loss) on derivative financial instruments		956,120	(2,057,957)	(1,245,472)	682,572
Interest income	36,534	4,929	35,492	142,233	152,066
Other expense, net	(508,766)	(256,292)	(18,752)	(9,304)	(24,034)
Total Other Income and Expense	(3,982,687)	(802,443)	(4,157,815)	(3,589,581)	(2,097,433)
Net (loss)/income	$ (2,822,098)	$ 3,418,037	$ 12,185,924	$ 12,053,792	$ 19,158,254
(Loss)/earnings per common share: (2)					
Basic (loss)/earnings per share	$ (0.18)	$ 0.61	$ 2.18	$ 2.16	$ 3.43
Diluted (loss)/earnings per share	$ (0.18)	$ 0.61	$ 2.18	$ 2.16	$ 3.43
Basic weighted average shares outstanding	15,600,813	5,589,147	5,589,147	5,589,147	5,589,147
Diluted weighted average shares outstanding	15,600,813	5,589,147	5,589,147	5,589,147	5,589,147
Dividends per share	$	$ 1.55	$ 3.36	$ 1.27	$ 2.01

	As of December 31,				
	2010	2009	2008	2007	2006
Balance Sheet Data					
Cash and cash equivalents	$ 68,186,902	$ 444,496	$ 3,607,635	$ 1,153,743	$ 6,016,470
Vessels and drydock	$ 333,425,386	$ 99,594,267	$ 109,260,102	$ 116,244,546	$ 122,727,030
Total assets	$ 412,268,440	$ 104,423,386	$ 117,111,827	$ 122,555,022	$ 137,728,758
Bank loan	$ 15,826,314	$ 36,200,000	$ 43,400,000	$ 47,000,000	$ 50,600,000
Shareholder payable(3)	$	$	$ 22,028,323	$ 19,433,097	$ 27,612,576
Related party payable (3)	$	$	$ 27,406,408	$ 27,406,408	$ 34,338,356
Shareholder s equity	$ 264,783,182	$ 61,328,542	$ 20,299,166	$ 26,897,242	$ 21,936,949

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
Condensed Cash Flows					
Cash inflow from operating activities	$ 4,906,478	$ 9,305,851	$ 24,837,892	$ 5,830,773	$ 13,226,007
Cash outflow from investing activities	(245,594,809)				
Cash inflow/(outflow) from financing activities	308,430,737	(12,468,990)	(22,384,000)	(10,693,500)	(14,850,000)

(1) In the year ended December 31, 2009, we recorded an impairment of two vessels for $4.5 million, 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 common shares by the weighted average number of common shares outstanding assuming that the transfer of the vessel owning subsidiaries was effective during the period. In addition, the stock split described in Note 13 in the consolidated financial statements as of and for the year ended December 31, 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 common shares 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.

(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.

	For the year ended December 31,				
	2010	2009	2008	2007	2006
Average Daily Results					
TCE per Revenue day(1)	$ 16,213	$ 23,423	$ 29,889	$ 27,687	$ 33,165
Vessel operating costs per day(2)	8,166	7,819	7,875	6,941	6,449
Aframax/LR2					
TCE per Revenue day - pool(1)	12,460				
Vessel operating costs per day(2)	8,293				
Panamax/LR1					
TCE per Revenue day - pool(1)	15,213	21,425	36,049	29,848	33,165
TCE per Revenue day - spot(1)	2,839				
TCE per Revenue day - time charters (1)	22,729	24,825	24,992	24,382	
Vessel operating costs per day(2)	8,189	7,819	7,875	6,941	6,449
Handymax					
TCE per Revenue day - pool(1)	9,965				
TCE per Revenue day - spot(1)	8,077				
Vessel operating costs per day(2)	8,107				
Fleet data(3)					
Average number of owned vessels	6.19	3.00	3.00	3.00	3.00
Average number of time chartered-in vessels	0.05	0.33	0.59		
Drydock					
Expenditures for drydock	$ 886,050	$ 1,680,784	$	$	$ 805,845

(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 descriptions of TCE revenue, revenue days and voyage expenses.

(2) Vessel operating costs per day represent Vessel operating costs, as 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

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

- demand for oil and oil products;
- supply of oil and oil products;
- regional availability of refining capacity;
- global and regional economic and political conditions;
- 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;
- currency exchange rates;
- weather;
- 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 price of steel;
- the number of vessels that are out of service; and
- environmental concerns and regulations.

Historically, the tanker markets have been volatile as a result of the many conditions and factors that can affect the price, supply and demand for tanker capacity. The recent global economic crisis may further reduce demand for transportation of oil over longer distances and supply of tankers to carry that oil, which may materially affect our revenues, profitability and cash flows. One of our ten owned vessels operates on a long-term time charter, while the remaining nine vessels operate in the Scorpio Panamax Tanker Pool and Scorpio Handymax Tanker Pool, which are spot-market oriented. One of our four time chartered-in vessels operates in the Scorpio Panamax Tanker Pool and the remaining three operate in the Scorpio Handymax Tanker Pool. Where we plan to employ a vessel in the spot charter market, we intend to generally place such vessel in a tanker pool managed by our commercial manager that pertains to that vessel s size class. If time charter or spot charter rates decline, we may be unable to achieve a level of charterhire sufficient for us to operate our vessels profitably.

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

We currently operate a fleet of ten owned vessels and four time chartered-in vessels. Of those, 13 are employed in spot market-oriented tanker pools, exposing us to fluctuations in spot market charter rates.

We may employ additional vessels that we may acquire in the future in the spot charter market. Where we plan to employ a vessel in the spot charter market, we intend to generally place such vessel in a tanker pool managed by our commercial manager that pertains to that vessel s size class. Although spot chartering is common in the tanker industry, 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 Scorpio Group pools, depends upon, 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 renew the charters on our vessels on the expiration or termination of our current charters, or on vessels that we may acquire in the future, the charter rates payable under any replacement 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 s, as of the end of March 2011, the newbuilding order book which extends to 2014 equaled approximately 27.4% 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 have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia extending throughout the Indian Ocean. Throughout 2008, 2009, 2010 and continuing into 2011, the frequency of piracy incidents against commercial shipping vessels has increased significantly, particularly in the Gulf of Aden off the coast of Somalia. For example, in February 2011, the VLCC Irene SL, a tanker vessel not affiliated with us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth $200 million. If these pirate attacks result in regions in which our vessels are deployed being characterized as war risk zones by insurers, as the Gulf of Aden has been since May 2008, premiums payable for insurance coverage could increase significantly and such coverage may be more difficult to obtain. In addition, crew costs, including costs in connection with employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any of these events may result in loss of revenues, increased costs and decreased cash flows to our customers, which could impair their ability to make payments to us under our charters.

If the contraction of the global credit markets and the resulting volatility in the financial markets continues or worsens, this could have a material adverse impact on our results of operations, financial condition and cash flows, and results of operation.

Since 2008, a number of major financial institutions have experienced serious financial difficulties and, in some cases, have entered into bankruptcy proceedings or are in regulatory enforcement actions. These difficulties have resulted, in part, from declining markets for assets held by such institutions, particularly the reduction in the value of their mortgage and asset-backed securities portfolios. These difficulties have been compounded by a general decline in the willingness by banks and other financial institutions to extend credit, particularly in the shipping industry due to the historically low asset values of ships. Although banks and financial institutions have since resumed extending credit, its availability remains significantly below its peak. 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. If we are unable to obtain additional credit or draw down upon borrowing capacity, it may negatively impact our ability to fund current and future obligations. These outcomes could have a material adverse impact on our business, results of operations, financial condition, ability to grow and cash flows, and could cause the market price of our common shares to decline.

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

Fuel, or bunkers, is a significant, if not the largest, expense in our shipping operations for our vessels employed on the spot market and can have a significant impact on pool earnings. With respect to our vessels employed on time charter, the charterer is generally responsible for the cost of fuel, however such cost may affect the charter rates we are able to negotiate for our vessels. 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 and competitiveness of our business versus other forms of transportation, such as truck or rail.

We are subject to complex laws and regulations, including environmental 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 International Maritime Organization, or IMO, International Convention on Civil Liability for Oil Pollution Damage of 1969 (as from time to time amended and generally referred to as CLC), the IMO International Convention for the Prevention of Pollution from Ships of 1973

(as from time to time amended and generally referred to as MARPOL), the IMO International Convention for the Safety of Life at Sea of 1974 (as from time to time amended and generally referred to as SOLAS), the IMO International Convention on Load Lines of 1966 (as from time to time amended) and the U.S. Maritime Transportation Security Act of 2002. 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 in U.S. waters, including the 200-nautical mile exclusive economic zone around the United States. An oil spill could also 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, 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. The ISM Code requires shipowners, ship managers and bareboat charterers to develop and maintain an extensive Safety Management System that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. If we fail to comply with the ISM Code, we may be subject to increased liability or our existing insurance coverage may be invalidated or decreased for our affected vessels. Such failure may also result in a denial of access to, or detention in, certain ports.

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.

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, applicable governmental regulations and the cost of newbuildings. If the market value of our fleet declines, we may not be able to obtain other financing or incur debt on terms that are acceptable to us. 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 Credit Facility and 140% of the aggregate principal amount outstanding for the STI Spirit Credit Facility. However a decrease in these values could cause us to breach certain covenants that are contained in our credit facility and in future financing agreements that we may enter into from time to time. If the recoverable amounts of our vessels further decline and we do breach such covenants and we are unable to remedy the relevant breach, our lenders could accelerate our debt and foreclose on vessels in our fleet. If we sell any vessel at any time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel s carrying amount on our financial statements, resulting in a loss and a reduction in earnings.

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.

Our vessels and their cargoes will be at risk of being damaged or lost because of events such as marine disasters, bad weather, business interruptions caused by mechanical failures, grounding, fire, explosions and collisions, human error, war, terrorism, piracy and other circumstances or events. For example, our vessel *Senatore* suffered damage to one of its ballast tanks in April 2010 which required a repair and resulted in offhire days. 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, environmental damage, higher insurance rates, damage to our customer relationships, 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 are at a risk of damage or loss because of events such as mechanical failure, collision, human error, war, terrorism, piracy, cargo loss and bad weather. 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. Terrorist attacks such as the attacks on the United States on September 11, 2001, the bombings in Spain on March 11, 2004 and in London on July 7, 2005 and the continuing response of the international community to these attacks, as well as the current political instability in the Middle East and Africa, continue to contribute to 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* 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.

From time to time on charterers instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the U.S. government as state sponsors of terrorism. The U.S. 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 (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.

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 for title or seize our vessels. 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 once their initial charters expire 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 seven additional vessels and chartered-in four vessels. As such, we have been operating over two-thirds of our vessels for approximately 12 months or less. 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.

We have a limited history operating as a publicly traded entity and will continue to incur increased costs in future years as a result of being a publicly traded corporation.

We have only operated as a public company since April 2010. As a public company, we will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. 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.

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.

If we do not identify suitable tankers for acquisition or successfully integrate any acquired tankers, we may not be able to grow or to effectively manage our growth.

One of our principal strategies is to continue to grow by expanding our operations and adding to our fleet. Our future growth will 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; 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 such growth plans.

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 expect to purchase additional vessels from time to time. The delivery of such additional vessels could be delayed, not completed or cancelled, which would delay or eliminate our expected receipt of revenues from the employment of such vessels. The seller could fail to deliver vessels to us as agreed, or we could cancel a purchase contract because the 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.

We will not be able to take advantage of favorable opportunities in the current spot market with respect to vessels employed on medium- to long-term time charters.

As of the date of this annual report, we employed one tanker under fixed rate long-term time charter agreement with a remaining duration of approximately 8.5 months. Vessels committed to medium- and long-term charters may not be available for spot charters during periods of increasing charterhire rates, when spot charters might be more profitable. Where we plan to employ a vessel in the spot charter market, we intend to generally place such vessel in a tanker pool managed by our commercial manager that pertains to that vessel s size class.

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 the charter agreements for one of our vessels, the charterer is responsible for voyage costs and we are responsible for the vessel operating costs. Under the tanker pool agreements for our remaining nine vessels, the pool is responsible for the voyage expenses and we are responsible for vessel costs. 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 second-hand 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. Although, we did not record an impairment in 2010, we cannot assure you that there will be no impairments in the 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 from 2026 to 2033, 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 debt 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 $400,000 and $900,000, depending on the size and condition of the vessel and the location of drydocking.

RISKS RELATED TO OUR RELATIONSHIP WITH SCORPIO GROUP AND ITS AFFILIATES

We are dependent on our managers 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 April 1, 2011, our commercial and technical managers provide commercial and technical management services to approximately 75 and 18 vessels respectively, other than the vessels in our fleet, that are owned or 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, are involved in other business activities with members of the Scorpio Group, which may result in their spending less time than is appropriate or necessary to manage our business successfully. Based solely on the anticipated relative sizes of our fleet and the fleet owned by members of the Scorpio Group over the next twelve months, we estimate that Messrs. Lauro and Bugbee will spend approximately 70-85% of their monthly business time on our business activities and their remaining time on the business of members of the Scorpio Group. However, the actual allocation of time could vary significantly from time to time depending on various circumstances and needs of the businesses, such as the relative levels of strategic activities of the businesses. 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 various contracts, including charter agreements with our customers, consisting of a long-term fixed-rate charter agreement and tanker pool agreements for each of our vessels operating in the Scorpio Group pools, and our credit facilities entered into in June 2010 and March 2011. 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 time charter agreements, on which we depend for a majority of our revenues, could cause us to suffer losses or otherwise adversely affect our business.

As of the date of this annual report, we employed one tanker under a fixed rate long-term time charter agreement with a remaining duration of approximately 8.5 months. The ability and willingness of each of our counterparties to perform its obligations under a time charter 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. Where we plan to employ a vessel in the spot charter market, we intend to 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.

As a result of the September 11, 2001 attacks, the U.S. response to the attacks and related concern regarding terrorism, insurers have increased premiums and reduced or restricted coverage for losses caused by terrorist acts generally. Accordingly, premiums payable for terrorist coverage have increased substantially and the level of terrorist coverage has been significantly reduced.

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 the credit facilities we entered into in June 2010 and March 2011 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 facility 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 facility, the lender 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 facility.

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 facility or if there is another default under our credit facility;

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 facility or future credit facilities which could affect our profitability, earnings and cash flow.

Amounts borrowed under our credit facility entered into in June 2010 bears interest at an annual rate ranging from 3.0% to 3.5% above LIBOR, and amounts borrowed under the credit facility entered into in March 2011 bears interest at an annual rate of 2.75% above LIBOR. 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 facility 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 facility 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

Scorpio Tankers Inc. was incorporated in the Republic of the Marshall Islands pursuant to the Marshall Islands Business Corporations Act on July 1, 2009 by Simon Financial Limited, or Simon, the 100% owner of Liberty Holding Company Ltd., or Liberty. On October 1, 2009, Simon transferred to Scorpio Tankers Inc. three vessel owning and operating subsidiary companies. Prior to becoming a public company, the operating subsidiaries were owned by Simon. 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. A subsidiary of Liberty retained ownership of the 5,589,147 shares it owned before the offering. Our principal executive offices are located at 9, Boulevard Charles III, Monaco 98000. Our telephone number is +377-9798-5716. Our stock trades on the New York Stock Exchange (NYSE) under the symbol STNG.

On April 9, 2010, using 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 April 19 and 22, 2010, we entered into agreements to purchase four double-hulled Handymax tankers for an aggregate purchase price of $99.0 million. Three of the ships, *STI Conqueror*, *STI Gladiator* and *STI Matador*, were built at the Shina Shipbuilding Co. Ltd. in South Korea: two ships in 2003 and one ship in 2005. The fourth ship, *STI Highlander*, was built at the Hyundai Mipo Dockyard in South Korea in 2007.

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 May 13, 2010, we entered into agreements to purchase two LR1 ice class 1A product tankers (*STI Heritage* and *STI Harmony*) each with an existing short-term time charter contract. The two ships were built in 2008 and 2007, respectively, at the Onomichi Dockyard in Japan. The aggregate purchase price of $92.0 million included an estimated $2.3 million related to the value of their existing time charter contracts. Both time charter contracts carried rates of $25,500 per day per ship plus 50% profit sharing over the base rate and expired in September 2010 for the vessel built in 2007 and November 2010 for the vessel built in 2008. The time charters, which were signed in 2007, were with an affiliate of Scorpio Tankers Inc.

On June 9, 2010, we announced that we took delivery of three products tanker vessels that we previously agreed to acquire, *STI Harmony*, *STI Heritage* and *STI Conqueror*.

On July 9, 2010, we announced that we took delivery of *STI Matador,* and on August 3, 2010, we announced that we took delivery of *STI Gladiator* and *STI Highlander.*

On September 21, 2010, we entered into an agreement to purchase an LR2 Aframax product tanker, *STI Spirit*, for a purchase price of $52.2 million. The ship was built in 2008and is charter free. The agreement also includes two purchase options with the seller. Each option grants the Company 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. Each option can be exercised at any time until September 2011. These options have not been exercised as of the date of this report.

On November 10, 2010, we announced that we took delivery of *STI Spirit*, the LR2 Aframax product tanker (approximately 113,100 dead weight tons) that we previously agreed to acquire.

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 approximately $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 686,250shares 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 December 12, 2010 the 2010 built LR1 product tanker, *BW Zambesi* (76,577 dwt), was delivered to us on a time charter in agreement. The term of the agreement was for one year from the date of delivery at a charterhire rate of $13,850 per day with an option to extend for an additional year at a charterhire rate of $14,850 per day. The vessel is currently operating in the Scorpio Panamax Tanker Pool.

On December 24, 2010, we agreed to charter in the *Krisjanis Valdemars*, a 2007 built Handymax ice-class 1B product tanker (37,266 dwt) for 10 months at $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. The vessel was delivered in February 2011.

On December 24, 2010, we agreed to charter in the *Kraslava*, a 2007 built Handymax ice-class 1B product tanker (37,258 dwt), for one year at $12,070 per day. The vessel was delivered on January 26, 2011.

On December 30, 2010, we agreed to charter in the *Histria Azure*, a 2007 built Handymax product tanker (40,394 dwt), for one year at $12,250 per day. The vessel was delivered on February 6, 2011. The agreement includes an option for Scorpio Tankers to extend for an additional year at $13,750 per day or $12,250 per day with a 50% profit sharing agreement.

On March 9, 2011, we executed a credit facility with DVB Bank SE for a senior secured term loan facility for $27.3 million, which partially finances the *STI Spirit* which we acquired on November 10, 2010.

In March 2011, we entered into an agreement pursuant to which an unaffiliated third party has the option to purchase one of our Handymaxes. If the option is exercised, we would realize a gain on the sale of approximately $5 million. The buyer is required to notify us if it intends to exercise such option by the end of May 2011.

On April 5, 2011, we entered into a time charter agreement for a 2007 built Handymax ice class 1B product tanker, the *Kazdanga*. This vessel will be chartered-in for one year at $12,345 per day and is expected to be delivered in June 2011. The agreement includes an option to extend the charter for an additional year at $13,335 per day.

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 December 31, 2010 consisted of ten wholly owned tankers (four LR1 tankers, four Handymax tankers, one LR2 tanker and one post-Panamax tanker) and one time chartered-in LR1 tanker. Below is our fleet list as of the date of this annual report:

	Vessel Name	Year Built	DWT	Ice Class	Employment	Daily Base Expense	Expiry (5)
	Owned vessels						
1	Noemi	2004	72,515		Time Charter(1)		
2	Senatore	2004	72,514		SPTP (2)		
3	Venice	2001	81,408	1C	SPTP (2)		
4	STI Conqueror	2005	40,158	1B	SHTP (3)		
5	STI Harmony	2007	73,919	1A	SPTP (2)		
6	STI Heritage	2008	73,919	1A	SPTP (2)		
7	STI Matador	2003	40,096		SHTP (3)		
8	STI Gladiator	2003	40,083		SHTP (3)		
9	STI Highlander	2007	37,145	1A	SHTP (3)		
10	STI Spirit	2008	113,100		SLR2P(4)		
	Owned DWT		644,857				
	Time Chartered-In (TC-IN) Vessels						
11	BW Zambesi	2010	76,577		SPTP (2)	$ 13,850	11-Dec-11(6)
12	Histria Azure	2007	40,394		SHTP (3)	$ 12,250	06-Feb-12(7)
13	Kraslava	2007	37,258	1B	SHTP (3)	$ 12,070	26-Jan-11
14	Krisjanis Valdemars	2007	37,266	1B	SHTP (3)	$ 12,000	14-Dec-11(8)
	TC-IN DWT		191,495				

Total DWT	836,352

(1) *Noemi* is time chartered by King Dustin, which is a related party.

(2) The vessel operates in Scorpio Panamax Tanker Pool (SPTP). SPTP is operated by Scorpio Commercial Management (SCM). SPTP and SCM are related parties to the Company.

(3) These vessels operate in the Scorpio Handymax Tanker Pool (SHTP). SHTP is operated by Scorpio Commercial Management (SCM). SHTP and SCM are related parties of the Company.

(4) This vessel operates in the Scorpio LR2 Pool (SLR2P). SLR2P is operated by Scorpio Commercial Management (SCM). SLR2P and SCM are related parties to the Company.

(5) Redelivery from the charterer is plus or minus 30 days from the expiry date.

(6) The agreement contains an optional second year for a rate of $14,850/ day.

(7) The agreement contains an option for a second year at a rate of $13,750/ day, or $12,250/day with a 50% profit sharing agreement whereby 50% of the profits over $12,250/day will be distributed to the vessel owner.

(8) The agreement contains a 50% profit and loss sharing agreement with the vessel owner whereby we would split all of the vessel s profits and losses above or below $12,000/day with the vessel owner.

Operations

Generally, we operate our vessels on time charters or in commercial pools (such as the Scorpio Aframax Tanker Pool, Scorpio LR2 Pool, Scorpio Panamax Tanker Pool, and Scorpio Handymax Tanker Pool).In certain circumstances (e.g. when a vessel is acquired), our vessels can operate in the spot market. As of the date of this annual report:

Noemi was on time charter.

STI Spirit was operating in the Scorpio LR2 Pool.

Senatore, Venice, STI Harmony, STI Heritage and *BW Zambesi* were operating in the Scorpio Panamax Tanker Pool.

STI Conqueror, STI Matador, STI Gladiator, STI Highlander, *Krisjanis Valdemars, Kraslava 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.

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 LR2 Tanker Pool, Scorpio Panamax Tanker Pool and the Scorpio Handymax Tanker Pool. 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 vessels, which are the same fees SCM charges third parties.

We signed commercial management agreements in December 2009 for *Noemi, Senatore* and *Venice* for a period of three years, which may be terminated upon a two year notice. We have also signed similar agreements for the vessels that we acquired in 2010, and 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, with the exception of two vessels we have recently acquired which are being technically managed by an unaffiliated technical manager. SSM is owned by members of 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 two year notice. We have also signed similar agreements for the vessels that we acquired and agreed to acquire so far in 2010, 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 Liberty, or our Administrator. Liberty provides accounting, legal compliance, financial, information technology services, and the provision of administrative staff and office space. We reimburse our Administrator for the reasonable direct or indirect expenses it incurs in providing us with the administrative services described above. Liberty also arranges vessel sales and purchases for us. Liberty sub-contracts its responsibilities 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. For the seven vessels *(STI Conqueror, STI Harmony, STI Heritage, STI Matador, STI Gladiator, STI Highlander* and *STI Spirit*) purchased in 2010, the Administrator earned $2.4 million. We believe this 1% fee on purchases and sales is customary in the tanker industry.

Further, pursuant to our administrative services agreement, Liberty, 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.

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

The International Tanker Market

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 2011 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.

THE INTERNATIONAL OIL TANKER SHIPPING INDUSTRY (Source: Drewry s)

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.

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 2000 to 2008, but growth came to an abrupt halt in 2009 as the world went into a global depression. 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 - 2010
(Million Barrels Per Day)

(1) Provisional

Source: Drewry Maritime Research

World oil consumption has generally experienced sustained growth since 2000, albeit it declined in 2009 due to the downturn in the global economy. The provisional data for 2010 however suggests that world oil demand rebounded strongly.

World oil consumption in 2010 is provisionally estimated at 86.9 million barrels per day. Since 2000 it has grown at a compound annual growth rate, or CAGR, of approximately 1.2%.

Regionally, oil consumption is either static or declining in most of the developed world, but is increasing in most of the developing world as the following chart indicates. 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 2000 to 2010 Chinese oil consumption grew by a CAGR of 6.7% to reach 9.2 million barrels per day in 2010.

Oil consumption on a per capita basis is still low in 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 with 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 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.

Chinese refinery throughput has grown at the fastest rate of any global region in the last decade, with the Middle East and other developing regions 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 regions such as 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 as 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 2010 is provisionally estimated at 2.3 billion tons, while refined petroleum product movements are provisionally estimated at 875 million tons.

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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 changes in the pattern or trade have had quite a positive impact on tanker demand when expressed in terms of ton miles. In the period 2000 to 2010 ton mile demand in the tanker sector grew at a CAGR of 3.2%, whereas the overall increase in trade over the same period was 1.6%. 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 2,544 miles (loaded voyage only) in 2002 to 3,320 miles in 2010, equivalent to an increase of 30%.

One of the reasons for the increase in average voyage lengths is the growth in Chinese crude oil imports and in particular the fact that it is sourcing crude oil from long haul destinations such as West Africa and Brazil. Chinese crude oil imports almost tripled in the period 2000 to 2009 and in so doing had a very positive impact on demand for crude oil tankers, especially VLCCs.

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.

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 +

In order to benefit from economies of scale, tanker charterers transporting crude oil will typically charter the largest possible vessel, taking into consideration port and canal size restrictions and optimal cargo lot sizes. The main tanker vessel types are:

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.

The following analysis focuses on straight product tankers and does not include ships with chemical carrying capability.

Oil Tanker Fleet March 31, 2011

Size Category	Deadweight Tons	Number of Vessels	% of Fleet (Number)	Total Capacity (Million Dwt)	% of Fleet (Dwt)
VLCC	>200,000	548	18.0	166.1	43.6
Suezmax	120,000-199,000	418	13.7	64.2	16.9
Aframax	80,000-119,000	874	28.7	92.6	24.3
Panamax	50,000-79,999	443	14.6	30.8	8.1
Handymax/size	10,000-49,999	758	24.9	27.3	7.2
Total		**3,041**	**100.0%**	**381.0**	**100.0%**

Source: Drewry Maritime Research

Between the end of 2000 and March 2011 the overall size of the 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

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 product tanker fleet as of March 31, 2011 by the above definition comprises 1,218 ships of 66.6 million dwt.

World Product[(1)] Tanker Fleet March31, 2011

Size Category	SizeRange (Deadweight Tons)	Number of Vessels	% of Fleet	Total Capacity (Million Dwt)	% of Fleet (Dwt)
LR2	>80,000	170	14.0%	18.4	27.6%
LR1	50,000-79,999	308	25.3%	21.5	32.3%
MR2	25,000-49,999	570	46.8%	24.1	36.2%
MR1	10,000-24,999	170	14.0%	2.6	4.3%
Total		**1,218**	**100.0%**	**66.6**	**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 favor of the larger ships that are more suited to long-haul routes.

World Product Tanker Fleet: Age Profile, March 31, 2011

Left Hand Scale = Million Dwt; Right Hand Scale = No of Ships; Bottom Scale = Dwt Size Category

Source: Drewry Maritime Research

Oil Tanker Orderbook

As of March 31, 2011 the tanker orderbook amounted to 656 tankers of 104.4 million dwt, equivalent to 27.4% of the current fleet.

World Oil Tanker Orderbook, March 31, 2011

Size Category	Deadweight Tons	Number of Vessels	% of Fleet (Number)	Total Capacity (Million Dwt)	% of Fleet (Dwt)
VLCC	>200,000	179	32.7	56.3	33.9
Suezmax	120,000-199,999	150	35.9	23.2	36.2
Aframax	80,000-119,999	135	15.4	14.8	16.0
Panamax	50,000-79,999	104	23.5	6.8	22.1
Handy	10,000-49,9999	88	11.6	3.3	12.0
Total		**656**	**21.6%**	**104.4**	**27.4%**

Source: Drewry Maritime Research

Product Tanker Orderbook

As of March 31, 2011 the product tanker orderbook amounted to 212 ships of 13.4 million dwt, equivalent to 20.1% of the current fleet. Other tankers within these size ranges that do not have protective coatings and are thus suitable for carrying only crude cargoes have been excluded from the table below.

World Product Tanker Orderbook, March 31, 2011

Size Category	Deadweight Tons	Number of Vessels	% of Existing Fleet - No	Total Capacity (Million Dwt)	% of Existing Fleet - Dwt
LR2	>80,000	40	23.5%	4.5	24.5%
LR1	50,000-79,999	90	29.2%	5.8	27.0%
MR2	25,000-49,999	66	11.6%	2.9	12.0%
MR1	10,000-24,999	16	9.4%	0.2	7.7%
Total		**212**	**17.4%**	**13.4**	**20.1%**

Source: Drewry Maritime Research

World Product Tanker Orderbook Delivery Schedule, November 30, 2010

	2011		2012		2013		2014+		Total	
Size	No.	M Dwt	No.	M Dwt	No.	M Dwt	No.	M Dwt	No.	M Dwt
10,000-24,999	14	0.2	2	0.0	0	0.0	0	0.0	16	0.2
25,000-49,999	41	1.8	22	1.0	3	0.1	0	0.0	66	2.9
50,000-79,999	49	3.4	25	1.4	16	1.0	0	0.0	90	5.8
80,000+	19	2.1	16	1.8	2	0.2	3	0.4	40	4.5
Total	**123**	**7.5**	**65**	**4.2**	**21**	**1.3**	**3**	**0.4**	**212**	**13.4**

No. = Number of Vessels. M Dwt = Millions of Dwt.

Source: Drewry Maritime Research

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, time charter rates are generally 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, time charter rates for all sizes of oil tankers rose quite steeply, reflecting the fact that buoyant demand for oil and increased sea-borne movements of oil generated additional demand for tanker capacity. This led to a much tighter balance between vessel demand and supply. However, as the world economy weakened in the second half of 2008, demand for oil also fell and had a negative impact on tanker demand and freight rates. Rates therefore declined in 2009, only to recover in the early part of 2010, before falling once again in the summer months and then remaining weak into 2011.

Oil Tanker One Year Time Charter Rates: 2000-2011

(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
March 2011	12,000	13,000	16,000	21,000	29,000

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 tankers. We are subject to international conventions, national, state and local 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 modifications and implementation of certain operating procedures.

A variety of government, quasi-governmental and private organizations subject our tankers to both scheduled and unscheduled inspections. These organizations include the local port authorities, national authorities, harbor masters or equivalent, classification societies, flag state administrations (countries of registry), labor organizations (including but not limited to the International Transport Workers Federation), charterers, terminal operators and oil companies. Some of these entities require us to obtain permits, licenses, certificates and approvals for the operation of our tankers. 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.

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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 tanker 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. Such laws and regulations frequently change 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 tankers. In addition, any serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, including 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 IMO, the United Nations agency for maritime safety and the prevention of pollution, has adopted the International Convention for the Prevention of Pollution from Ships, or MARPOL, which has been updated through various amendments. MARPOL establishes environmental standards relating to oil leakage or spilling, garbage management, sewage, air emissions, handling and disposal of noxious liquids and the handling of harmful substances in packaged forms.

Air Emissions

In September 1997, the IMO adopted Annex VI to MARPOL to address air pollution from ships. Effective May 2005, Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from all commercial vessel exhausts and prohibits deliberate emissions of ozone depleting substances (such as halons and chlorofluorocarbons), emissions of volatile organic compounds from cargo tanks, and the shipboard incineration of specific substances. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Additional or new conventions, laws and regulations may be adopted that could require the installation of expensive emission control systems and adversely affect our business, cash flows, results of operations and financial condition. In October 2008, the IMO adopted amendments to Annex VI regarding emissions of sulfur oxide, nitrogen oxide, particulate matter and ozone-depleting substances, which amendments entered into force on July 1, 2010. The amended Annex VI is expected to reduce air pollution from vessels by, among other things, (i) implementing a progressive reduction of sulfur oxide emissions from ships by reducing the global sulfur fuel cap initially to 3.50% (from the current cap of 4.50%), effective from January 1, 2012, then progressively to 0.50%, effective from January 1, 2020, subject to a feasibility review to be completed no later than 2018; and (ii) establishing new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. The United States ratified the Annex VI amendments in October 2008, and the U.S. Environmental Protection Agency, or EPA, has since implemented equivalent emissions standards.

On March 26, 2010, the IMO amended MARPOL to designate areas extending up to 200 nautical miles from the Atlantic/Gulf and Pacific coasts of the United States and Canada and the Hawaiian Islands and certain portions of French waters as Emission Control Areas under the MARPOL Annex VI amendments. Once the designations take effect in August 2012, ocean-going vessels in these areas will be subject to stringent emission controls. 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 SOLAS. The ISM Code requires the party with operational control 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. SSM has 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. The U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code by the applicable deadlines will be prohibited from trading in U.S. and European Union ports, as the case may be.

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, or the CLC, although the United States is not a party. Under this convention 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, subject to certain affirmative defenses, for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil. The limits on liability outlined in the 1992 Protocol use the International Monetary Fund currency unit of Special Drawing Rights, or SDR. 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 conduct. Vessels trading with states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that of the CLC. The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention, which became effective on November 21, 2008, requires registered owners of ships over 1,000 gross tons to maintain insurance or other financial security 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, IMO adopted an International Convention for the Control and Management of Ships Ballast Water and Sediments, or BWM, in February 2004. BWM s implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. BWM will not become effective until 12 months after it has been adopted by 30 states, the consolidated 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, the IMO s Marine Environment Protection Committee passed a resolution in March 2010 encouraging the ratification of the Convention and calling upon those countries that have already ratified to encourage the installation of ballast water management systems. If ballast water treatment becomes mandatory, the cost of compliance could be significant.

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. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners, operators and bareboat charterers 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:

natural resources damage and related assessment costs;

real and personal property damage;

net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage; and

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

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 possible adjustment for inflation), and our fleet is entirely composed of vessels of this size class. CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages. 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 $0.5 million for any other vessel. These OPA and CERCLA limits of liability do not apply if an incident was directly caused by violation of applicable U.S. federal safety, construction or operating regulations or by a responsible party s gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities.

OPA and the U.S. Coast Guard also require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential liability under OPA and CERCLA. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, self-insurance or a guaranty.

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 or hazardous substances 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 and remediation and damages and complements the remedies available under OPA and CERCLA.

The EPA regulates the discharge of ballast water and other substances in U.S. waters under the CWA. Effective February 6, 2009, EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit authorizing ballast water discharges and other discharges incidental to the operation of vessels. The Vessel General Permit imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters, and in 2009 the Coast Guard proposed new ballast water management standards and practices, including limits regarding ballast water releases. 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. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

Greenhouse Gas Regulation

The IMO is evaluating mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. 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. In the United States, the EPA has issued a proposed finding that greenhouse gases threaten the public health and safety. In addition, climate change initiatives are being considered in the U.S. Congress. Any passage of climate control legislation or other regulatory initiatives by the IMO, EU, 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 that we cannot predict with certainty at this time.

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. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must attain an International Ship Security Certificate 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 and of 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.

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 International Ship Security Certificate attesting to the vessel s compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code, and our fleet is in compliance with applicable security requirements.

Inspection by classification societies

Every oceangoing 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, at intervals of 12 months from 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 may be carried out on 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 ship 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.

Vessels have their underwater parts inspected every 30 to 36 months. Depending on the vessel s age and other factors, this inspection can often be done afloat with minimal disruption to the vessel s commercial deployment. However, vessels are required to be drydocked, meaning physically removed from the water, for inspection and related repairs at least once every five years from delivery. 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

As of December 31, 2010, Scorpio Tankers Inc. owned 100% of the 12 subsidiaries listed below.

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 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, 2010 and 2009 and for the three years ended December 31, 2010 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. The other financial information included in this filing represents the aggregated financial information of the operations of our three vessel-owning subsidiaries.

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 seven vessels, all of which have been delivered as of December 31, 2010. We also time chartered-in four vessels, one prior to December 31, 2010 and three after December 31, 2010, all of which have been delivered and put into our pools as of the date of this annual report.

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; and

Time charters, whereby vessels we operate and for which we are responsible for crewing and other vessel operating costs 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, 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 COA s, thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market. We are responsible for crewing and other vessel operating costs for our vessels that operate in these pools.

The table below illustrates the primary distinctions among these types of 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 [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 drydocking.

As of December 31, 2010, ten vessels, the *Venice, Senatore, STI Conqueror, STI Gladiator, STI Harmony, STI Heritage, STI Highlander, STI Matador STI Spirit* and *BW Zambesi*, were operating in the pools managed by SCM. The majority of the vessels in these pools trade in the spot market. The *Noemi* was chartered to a customer under a fixed-rate long-term time charter contract that, as of the date of this annual report, has a remaining duration of approximately 8.5 months.

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 all 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 drydockings. 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 charged by SSM. Historically, our fees under technical management arrangements with SSM were under management agreements with other Scorpio Group entities, which are related parties of ours. 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 the historical consolidated financial statements included elsewhere in this annual report. We are currently party to a technical

management agreement with SSM. Under this agreement, SSM provides us with technical services and the ability to subcontract technical management of the ships with our approval. We pay market-based fees for this service.

Drydocking. We must 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. 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. Time charter equivalent, or TCE, revenue or rates, is a standard shipping industry performance measure which is used to compare results between different charter types. TCE revenue is vessel revenue less voyage expenses. 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 days in the period.

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 ship owner 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 ship owner may use different ships to perform these individual voyages. As a result, COAs are mostly entered into by large fleet operators such as pools or ship owners with large fleets of the same vessel type. All of the ship s operating, voyage and capital costs are borne by the ship owner while the freight rate normally is agreed on a per cargo ton basis.

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 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.

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 we trade in the spot market. If we choose to pay dividends in the future, this will, from period to period, affect the cash available to pay such dividends. We intend to 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. In addition, unpredictable weather patterns during the winter months tend to disrupt vessel 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 with SCM and Liberty Holding Company Ltd., respectively in December 2009, and costs incurred from being a public company. Historically, we incurred management fees for commercial and administrative management under management agreements with other Scorpio Group entities, which are parties related to us. 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 consolidated financial statements included elsewhere in this annual report.

In December 2009, we entered into a commercial management agreement with SCM. We also entered into an administrative services agreement with Liberty Holding Company Ltd., our Administrator. Under these agreements, SCM provides us with commercial services and our Administrator provides us with administrative services. 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. Our general and administrative management fees incurred prior to December 1, 2009 are estimates of the value of the general and administrative services provided by Scorpio Group affiliates to us. These fees may not have been equivalent to a market-based fee. The new technical and administrative services agreements were negotiated at rates similar to the rates under the previous agreements, which we believe are customary in the tanker industry. In addition, we continue to incur additional general and administrative expenses as a result of being a publicly traded company, including costs associated with annual reports to shareholders and SEC filings, 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, 2010, 2009 and 2008.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2010 COMPARED TO THE YEAR ENDED DECEMBER 31, 2009

	For the year Ended December 31,			
	2010	2009	Change	Percentage 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	(100%)
Depreciation	(10,178,908)	(6,834,742)	(3,344,166)	49%
General and administrative expenses	(6,200,094)	(416,908)	(5,783,186)	1387%
Interest expense bank loan	(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%)
Interest income	36,534	4,929	31,605	641%
Other expense, 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	0%
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 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 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.

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 evaluation is performed on an individual vessel basis. The first step of our impairment evaluation is to assess the fair value less cost to sell of our vessels by obtaining vessel valuations from leading, independent and internationally recognized ship brokers. We do this once each year. We then compare the market values from the broker valuations (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 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.

All of our owned vessels were built within the past ten years and delivered to us within the past seven years, with seven of our ten owned vessels being delivered in the year ended December 31, 2010. Thus, our fleet is relatively new. However, given the current and historical volatility in market prices for similar vessels and recent downward pressure on charter rates, the independent broker valuations we obtained in the current year reflected potential indicators of impairment for six of our ten owned vessels.

At December 31, 2010, 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 six of our ten owned vessels. In line with our policy, for each of the aforementioned six vessels 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), the ten year historical average of charter rates in the shipping industry for periods thereafter, and our best estimate of vessel operating expenses. 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 were greater than the carrying amounts of the vessels in all instances, which resulted in no impairment being recognized. In addition, if the charter rates were adjusted downward by 5% or the discount rate was increased by 1% the value in use of the vessels would still have exceeded the carrying value of the six vessels in question.

Illustrative comparison of possible 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. As described above, our accounting policy is such that while this is considered to be an impairment triggering event, recoverable amount which considers value in use must also be considered. In this regard, we have concluded that the value in use for our vessels is higher than their carrying values and consequently, no impairment is required.

The table set forth below indicates (i) the carrying amount of each of our vessels as of December 31, 2010, (ii) which of our vessels had a higher or lower carrying value than vessel valuations we received from two shipping brokers, and (iii) the aggregate difference between the

carrying amount and the market value represented by such vessels. This aggregate difference represents the approximate analysis of the amount by which we believe we would record a loss if we sold those vessels with a carrying value higher than their vessel valuations, or a gain if we sold those vessels with a carrying value lower than their vessel valuations, in the current environment, on industry standard terms, in cash transactions, and to a willing buyer where we are not under any compulsion to sell, and where the buyer is not under any compulsion to buy. For purposes of this calculation, we have assumed that the vessels would be sold at a price that reflects our estimate of their current basic market values. However, we are not holding our vessels for sale.

Our estimates 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	Noemi	2004	$ 37.4(1)
2	Senatore	2004	35.7(2)
3	Venice	2001	21.2(2)
4	STI Conqueror	2005	26.1(1)
5	STI Harmony	2007	44.5(1)
6	STI Heritage	2008	44.2(2)
7	STI Matador	2003	22.6(1)
8	STI Gladiator	2003	22.7(1)
9	STI Highlander	2007	26.8(2)
10	STI Spirit	2008	52.3(1)
	Total		$ 333.5

(1) Indicates vessels for which we believe, as of December 31, 2010, the basic charter-free market value is lower than the vessel s carrying value. We believe that the aggregate carrying value of these vessels exceeds their aggregate basic charter-free market value by approximately $5.5 million.

(2) Indicates vessels for which we believe, as of December 31, 2010, the basic charter-free market value is higher than the vessel s carrying value. We believe that the aggregate carrying value of these vessels is less than their aggregate basic charter-free market value by approximately $14.6 million.

We note that one of our vessels, the *Noemi*, is currently employed under a long-term, time charter, which expires in December 2011. If we sell this vessel with the charter attached, the sale price may be affected by the relationship of the charter rate to the prevailing market rate for a comparable charter with the same terms. In the case of the *Noemi*, we believe this is an above-market time charter, and that if this vessel were sold with the charter attached, we would receive a premium over its basic charter-free market value.

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 $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.

Interest expense bank loan. Interest expense-bank loan was $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 Credit Facility and 2005 Credit Facility in addition to $0.5 million of lender commitment fees on the undrawn portion of the 2010 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.

Interest income. Interest 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	(100%)
Charterhire expense	(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%
Interest expense, net	(133,708)	(694,186)	(560,478)	(81%)
Realized and unrealized (loss)/gain on derivative financial instruments	(279,560)	148,035	427,595	(289%)
Other expense, 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	100%
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	100%
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, 2010and 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 14 to the audited consolidated financial statements in ITEM 18 Financial Statements .

Interest expense, net. Interest expense, net was $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. Interest expense 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)
Interest 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)
Charterhire expense	
Depreciation	(2,389,669)
General and administrative expenses	(266,509)
Interest 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

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009 COMPARED TO THE YEAR ENDED DECEMBER 31, 2008

	For the year Ended December 31,			
	2009	2008	Change	Percentage Change
Vessel revenue	$ 27,619,041	$ 39,274,196	$ (11,655,155)	(30%)
Vessel operating costs	(8,562,118)	(8,623,318)	61,200	(1%)
Charterhire	(3,072,916)	(6,722,334)	3,649,418	(54%)
Impairment	(4,511,877)		(4,511,877)	
Depreciation	(6,834,742)	(6,984,444)	149,702	(2%)
General and administrative expenses	(416,908)	(600,361)	183,453	(31%)
Interest expense bank loan	(699,115)	(1,710,907)	1,011,792	(59%)
Net realized and unrealized gain/(loss) on derivative financial instruments	148,035	(2,463,648)	2,611,683	(106%)
Interest income	4,929	35,492	(30,563)	(86%)
Other expense, net	(256,292)	(18,752)	(237,540)	(1267%)
Net Income	$ 3,418,037	$ 12,185,924	$ (8,767,887)	(72%)

Net income. Net income for the year ended December 31, 2009 was $3.4 million, a decrease of $8.8 million, or 72%, when compared to net income of $12.2 million for the year ended December 31, 2008. The differences between the two periods are discussed below.

Vessel revenue. Revenue was $27.6 million for the year ended December 31, 2009, a decrease of $11.7 million, or 30%, from revenue of $39.3 million for the year ended December 31, 2008. The following table summarizes our revenue:

	For the year Ended December 31,			
	2009	2008	Change	% change
Owned vessels				
Time charter revenue	$ 17,203,709	$ 18,293,963	$ (1,090,254)	(6%)
Pool revenue	7,438,726	13,201,424	(5,762,698)	(44%)
Time chartered-in vessels				
Pool revenue	2,976,606	7,778,809	(4,802,203)	(62%)
TOTAL	$ 27,619,041	$ 39,274,196	$ (11,655,155)	(30%)

The reduction in time charter revenue of $1.1 million, or 6%, was primarily the result of *Noemi* and *Senatore* both being drydocked in 2009. *Noemi* was drydocked in August 2009 (off-hire for 23 days), which reduced revenue by $0.6 million, and *Senatore* was drydocked in May 2009 (off-hire for 14 days), which reduced revenue by $0.4 million. *Noemi* and *Senatore* were employed on time charters that began in 2007 for the years ended December 31, 2009 and 2008.

The reduction in pool revenue for the owned vessel *Venice* of $5.8 million, or 44%, was due to a decrease in the spot market rates. The majority of the vessels in the Scorpio Panamax Tanker Pool operate in the spot market.

The reduction of the pool revenue for time chartered-in vessels of $4.8 million, or 62%, was due to 95 less operating days in the year ended December 31, 2009 due to the termination of a time charter-in of a vessel that was chartered in for the period of April 29, 2008 to May 1, 2009 and a decrease in spot market rates, which resulted in a decrease in the pool rates.

Vessel operating costs. Vessel operating costs for owned vessels for the years ended December 31, 2009 and 2008 were $8.6 million in each year; there were no significant changes in vessel operating costs from one year to another.

Charterhire. Charterhire expense of $3.1 million for the year ended December 31, 2009 decreased $3.6 million, or 54%, from $6.7 million for the year ended December 31, 2008. The decrease was due to 95 less operating days in the year ended December 31, 2009 due to the termination of a time charter-in vessel in May 2009, and a reduction in the profit and loss arrangement included in the charterparty. The vessel was chartered-in by us from May 29, 2008 to May 1, 2009 at $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 charterhire 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 charterhire expense of $108,000 because the vessel s earnings in the pool were less than $26,750 per day. For the year ended December 31, 2008, we recorded an increase in the charterhire expense of $1.0 million because the vessel s earnings in the pool were more 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.

General and administrative expense. General and administrative expense, which includes commercial management and administrative fees, of $0.4 million for the year ended December 31, 2009, decreased $0.2 million, or 31%, from $0.6 million for the year ended December 31, 2008. This decrease in 2009 primarily resulted from the reduction in the administrative fees charged by our managers.

Interest expense bank loan. Interest expense-bank loan was $0.7 million for the year ended December 31, 2009, a decrease of $1.0 million, or 59%, from $1.7 million for year ended December 31, 2008. The decrease in interest expense was primarily due to a reduction in LIBOR and a decrease in the principal outstanding during the periods the 2005 Credit Facility was outstanding, which was paid in full from the proceeds of the initial public offering. The average interest rate including margin decreased to 1.70% for the year ended December 31, 2009 from 3.71% for the year ended December 31, 2008. The average principal for the year ended December 31, 2009 and 2008 was $41.6 million and $45.2 million, respectively.

Gain/(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 gain of $0.1 million 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. For the year ended December 31, 2008, there was a loss on derivatives of $2.5 million, which was from an unrealized loss of $2.1 million and a realized loss of $0.4 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).

Interest income. Interest income was $4,929 for the year ended December 31, 2009, a decrease of $30,563, or 86%, from the $35,492 for the year ended December 31, 2008. The decrease was primarily due a reduction in interest rates for our cash deposits and reduction in the cash balance.

Other expense, net. Other expense, net was a loss of $256,292 for the year ended December 31, 2009, and a loss of $18,752 for the year ended December 31, 2008. This change was primarily the result of sundry finance expenses and changes in foreign currency gains and losses.

Results of operations segment analysis

Panamax segment

As discussed in Note 1 to the consolidated financial statements in Item 18 below, the Panamax/LR1 segment was our only operating segment in 2009 and 2008. Therefore, all discussion regarding fluctuations in income statement account line items between the periods can be obtained from the 2009 compared to 2008 consolidated results of operations discussion above.

The following table summarizes income from vessel operations for our Panamax/LR1 segment

Panamax/LR1 segment	For the year Ended December 31,			
	2009	2008	Change	Percentage Change
Vessel revenue	$ 27,619,041	$ 39,274,196	$ (11,655,155)	(30%)
Vessel operating costs	(8,562,118)	(8,623,318)	(61,200)	(1%)
Charterhire expense	(3,072,916)	(6,722,334)	(3,649,418)	(54%)
Impairment	(4,511,877)		4,511,877	(100%)
Depreciation	(6,834,742)	(6,984,444)	(149,702)	(2%)
General and administrative expenses	(416,908)	(600,361)	(183,453)	(31%)
Interest expense, net	(694,186)	(1,675,415)	(981,229)	(59%)
Realized and unrealized (loss)/gain on derivative financial instruments	148,035	(2,463,648)	(2,611,683)	(106%)
Other expense, net	(256,292)	(18,752)	237,540	1267%
Segment profit	$ 3,418,037	$ 12,185,924	(8,767,887)	(72%)
Time charter revenue per day	24,824	36,049	(11,225)	(31%)
Pool revenue per day	21,425	24,992	(3,567)	(14%)
Operating costs per day	7,819	7,875	(56)	(1%)
Time charter revenue days	693	732	(39)	(5%)
Pool revenue days	486	582	(96)	(16%)
Operating days	1,095	1,314	(219)	(17%)
Average number of owned vessels	3.00	3.00		0%
Average number of time chartered-in vessels	0.33	0.59	(0.26)	(44%)

B. Liquidity and Capital Resources

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, we repaid in full the outstanding balance of $38.9 million of our 2005 Credit Facility from the proceeds of the initial public offering. On May 4, 2010, we closed the issuance of 450,000 shares of common stock at $13.00 and received $5.2 million, after deducting underwriters discounts, when the underwriters in the Company s initial public offering partially exercised their over-allotment option.

On June 2, 2010, we executed our $150.0 million loan facility, the 2010 Credit Facility, which is described below. During 2010 we drew the entire amount of the 2010 Credit Facility to partially finance the vessel acquisitions.

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 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 fully exercised their over-allotment option. Additionally, 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.

The remaining proceeds of our initial public offering and follow-on offering will be used for working capital, general corporate expenses, and vessel acquisitions.

On March 9, 2011, we executed a credit facility with DVB Bank SE (described below) for a senior secured term loan facility for $27.3 million.

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 derived from our time charter-out contract for the *Noemi* and the pool income from our remaining vessels. Time charters provide contracted revenue that reduces the volatility (rates can fluctuate within months) and seasonality (rates are generally stronger in first and fourth quarters of the year) from vessels that operate in the spot market. 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. We believe these cash flows from operations, 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, 2010, our cash balance was $68.2 million, which is up from our cash balance of $0.4 million as of December 31, 2009. The increase in cash balance was due to proceeds from our initial public offering in April 2010 along with the subsequent follow-on offering in November 2010 in addition to the full draw down of our 2010 Credit Facility. These proceeds were offset by the purchase of seven vessels throughout the year. 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. For the year ended December 31, 2009, our net cash inflow from operating activities was $9.3 million and the net cash outflow from financing activities was $12.5 million, which included a dividend $8.7 million.

As of December 31, 2010, our long-term liquidity needs were comprised of our debt repayment obligations for our 2010 Credit Facility and obligations under our four time charter-in arrangements.

The 2010 Credit Facility and STI Spirit Credit Facility require us to comply with a number of covenants, including financial covenants related to liquidity, consolidated net worth, 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.

We have one vessel which as of December 31, 2010, is scheduled to be drydocked within the next 12 months for an estimated cost of $0.9 million.

Cash Flows

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

	For the Year Ended December 31,		
	2010	**2009**	**2008**
Condensed Cash Flows			
Cash inflow from operating activities	$ 4,906,478	$ 9,305,851	$ 24,837,892
Cash outflow from investing activities	(245,594,809)		
Cash inflow/(outflow) from financing activities	308,430,737	(12,468,990)	(22,384,000)

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 are 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, a related party administrator), 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, a 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, a 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, a 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, a related party administrator).

- The agreement also included two purchase options with the seller. Each option grants 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. Each option can be exercised at any time until September 2011. The combined fair value of the two options has been estimated at $126,337. The fair value of the options has been reflected as part of other assets and the options will be expensed through the income statement if they are impaired or expire unexercised.

Cash inflow from/(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 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 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 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.

Cash flows for the year ended December 31, 2009 compared to the year ended December 31, 2008

Cash inflow from operating activities

Net cash inflow from operating activities was $9.3 million for the year ended December 31, 2009, which was a decrease of $15.5 million from the year ended December 31, 2008. The primary reasons for the decrease were (i) lower revenues from the vessels in the pool ($10.6 million), (ii) 37 off-hire days for two of the vessels that were in drydock during 2009 ($1.0 million); changes in the shareholder receivable and payable ($7.7 million) and (iii) drydock payments for two of our vessels that were performed in 2009 ($1.6 million). These reductions were partially offset by (i) a decrease in the charterhire expense ($3.6 million), and (ii) changes in other assets and liabilities ($1.8 million).

Cash flow from investing activities

There was no cash used in investing activities for either of the periods.

Cash outflow from financing activities

Cash outflow from financing activities was $12.5 million for the year ended December 31, 2009, which was $9.9 million less than the cash used for the year ended December 31, 2008. This decrease was due to a reduction in dividends paid of $10.1 million ($8.7 million for the year ended December 31, 2009 and $18.8 million in the year ended December 31, 2008). During the years ended December 31, 2009 and 2008, we made scheduled principal payments on our debt of $3.6 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 $56,000,000 and consisted of two tranches, one for each vessel-owning subsidiary. Each tranche was repayable in 40 consecutive quarterly installments of $450,000, plus a balloon payment of $10,000,000, to be made together with the 40th installment of each tranche. The 2005 Credit Facility was due to mature on May 18, 2015. The interest rate on the loan was 0.70% above LIBOR. As of December 31, 2009, the outstanding balance was $39.8 million, with $3.6 million due within the next 12 months. As of December 31, 2009, we were in compliance with all of our loan covenants. 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 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, or the lead arrangers, for a senior secured term loan facility of up to $150 million. Drawdowns under the credit facility were available until December 2, 2011 and bear interest 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%. 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 15, 2015 and can only be used to partially finance the cost of vessel acquisitions where the acquired vessels would then become 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 fifteen years of age. Our subsidiaries, which may at any time own one or more of our initial vessels, will act as guarantors under the credit facility. This facility was fully drawn as of December 31, 2010. The amount outstanding at that date of $145.2 million reflects principal payments made at September 30, 2010 and 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; 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 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 75% of the value of any new equity issues from July 1, 2010 going forward.

* The ratio of EBITDA to actual interest expense shall be no less than 2.50 to 1.00 commencing with the fifth fiscal quarter following the closing of the credit facility. Such ratio shall be calculated quarterly on a trailing quarter basis from and including the fifth fiscal quarter however for the ninth fiscal quarter and periods thereafter the ratio shall be calculated on a trailing four quarter basis.

* Unrestricted cash and cash equivalents including amounts on deposit with the lead arrangers for the first five fiscal quarters following the closing of our initial public offering shall at all times be no less than the higher of (i) US$ 2,000,000 per vessel or (ii) US$ 10,000,000 and thereafter unrestricted cash and cash equivalents shall at all times be no less than the higher of (i) US$ 1,000,000 per vessel or (ii) US$ 10,000,000.

* 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.

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 with the *STI Spirit* as collateral, which was acquired on November 10, 2010. The credit facility has a maturity date of seven years after the drawdown date, and the loan bears interest at LIBOR plus a margin of 2.75% per annum. A commitment fee equal to 1.50% per annum is calculated on the undrawn loan from the date of execution. The credit facility may only be used to finance the *STI Spirit*. The loan will be repaid over 28 equal quarterly installments and a lump sum payment at maturity. The quarterly installments, which commence three months after the drawdown, are 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. This credit facility was fully drawn on March 17, 2011.

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; restrictions on consolidations, mergers or sales of assets; approval on changes in the Manager; 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 which pertain to Scorpio Tankers Inc. include:

* The ratio of debt to capitalization shall be no greater than 0.60 to 1.00.

* Consolidated tangible net worth shall be no less than US$ 150,000,000 plus 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter.

* The ratio of EBITDA to actual interest expense shall be no less than 2.50 to 1.00 commencing with the third fiscal quarter of 2011. Such ratio shall be calculated quarterly on a trailing quarterly basis from and including the third fiscal quarter of 2011 until the third fiscal quarter of 2012 when the ratio shall be calculated on a trailing four quarter basis.

* Unrestricted cash and cash equivalents shall be no less than the higher of (i) US$500,000 per vessel at all times or (ii) US$10,000,000 during the earlier of the first five fiscal quarters after the first drawdown date or the third fiscal quarter of 2011.

* The aggregate fair market value of the collateral vessels 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.

Interest Rate Swaps

As of December 31, 2009, we had one interest rate swap. The notional value was $19.9 million, and the effective fixed interest rate was 4.79%. The swap began in May 2005 and was scheduled to end in May 2015. The interest rate swap was terminated when the 2005 Credit Facility was repaid in April 2010. We had no interest rate swaps in place as of December 31, 2010. In the future, we may enter into interest rate swaps to manage our exposure interest rates.

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 and trades in the Scorpio Handymax Tanker Pool. *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 is 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.

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.

Drydock

The *Noemi* and *Senatore* were drydocked in 2009 for an aggregate cost of $1.6 million and 37 off-hire days, and *Venice* received an underwater survey in 2009. The *STI Heritage* and *STI Conqueror* were drydocked in the third quarter of 2010. The aggregated drydock cost for the two vessels was $0.9 million. The aggregate offhire for both vessels was 24 days. The *Venice* is scheduled to be drydocked in 2011 for an estimated cost of $0.9 million.

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, 2010, we have repurchased 244,146 of its shares at an average price per share of $10.85. 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, 2010, 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, 2010 (1):

	in millions of $			
	Less than 1 year	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
Bank Loan(1)	$ 16,271,020	$ 32,542,040	$ 96,361,522	$
Bank Loan Interest payments(2)	7,077,971	11,596,800	5,515,248	
Time charter-in commitment(3)	16,542,140	787,323		
Technical management fees(4)	2,000,000	1,833,333		
Commercial management fees(5)	91,250	5,250		
Total	$ 41,982,381	$ 46,764,746	$ 101,876,770	$