TEEKAY TANKERS LTD

Moderator: Emily Yee
November 8, 2012

Operator: Welcome to Teekay Tankers Limited Third Quarter 2012 Earnings Results conference call. During the call all participants will be in the listen-only mode. Afterwards you will be invited to participate in a question and answer session. At that time, if you have a question, participants will be asked to press star one to register for a question. For assistance during the call please press star then zero on your touchtone phone.

As a reminder, this call is being recorded. Now for opening remarks and introductions I would like to turn the call over to Mr. Bruce Chan, Teekay Tankers Limited Chief Executive Officer. Please go ahead, sir.

Ryan: Before Mr. Chan begins I would like to direct all participants to our website at www.tktankers.com where you'll find a copy of the third quarter of 2012 earnings presentation. Mr. Chan will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in a forward-looking statements is contained in the Third Quarter of 2012 Earnings Release and Earnings Presentation available on our Web site.

I will now turn the call over to Mr. Chan to begin.

Bruce Chan: Thank you, Ryan. Hello everyone and thank you very much for joining us. With me here in Vancouver is Vince Lok -- Teekay Tankers Chief Financial Officer -- Brian Fortier -- Corporate Controller of Teekay Corporation -- and Peter Evensen -- Teekay Corporation's CEO. During today's call I will be taking you through Teekay Tankers Third Quarter Earnings Results Presentation which can be found on our Web site.

Beginning with our recent highlights on slide number three of the presentation, Teekay Tankers generated cash available for distribution before reserves of 12 cents per share in the third quarter. This is down from 15 cents per share generated in the second quarter due to the seasonally weak summer spot market, lower average time charter hire rates, and a heavy summer dry-docking schedule which was timed to coincide with the expected seasonal weakness.

Teekay Tankers declared a dividend of 2 cents per share for the third quarter, down from 11 cents per share paid in the previous quarter mainly due to the same factors that affected cash available for distribution and an increase in our quarterly reserve for debt principal repayments. Our third quarter dividend -- which is our 20th consecutive quarterly dividend -- will be paid out on November 26th to all shareholders of record on November 19th.

It is important to note that our dividend is liquidity neutral. In keeping with the dividend policy we have maintained since our IPO, Teekay Tankers pays out all of its cash available for distribution each quarter after reserving for debt principal repayments and estimated dry-docking expenses.

In the third quarter we reported an adjusted net loss of 9 cents per share compared to adjusted net income of 1 cent in the second quarter. We continue to focus on tactically managing our fleet to ensure we maintain strong fixed cover during this period of cyclical weakness in the tanker markets.

During the third quarter, our fixed rate fleet earned an average of 20,500 per day, which is more than $7,500 per day higher than the average rate of 12,900 per day earned by our spot traded vessels during the same period. Our high percentage of fixed rate cover has provided support for our dividend through our seasonally weaker summer months and continues to provide Teekay Tankers with a significant competitive advantage.

We recently extended a fixed time charter on one of our aframax tankers for an additional two years, securing more fixed rate business at a rate that is significantly above the current spot market, again, leveraging Teekay Corporation's extensive customer and chartering relationships. The additional time charter -- which we completed in late October -- increased Teekay Tanker's fiscal 2013 fixed rate coverage from 38% to 42%.

Lastly, Teekay Tankers remains financially well-positioned with total liquidity of 383 million as of September 30 with no significant debt maturities until 2017. Our strong balance sheet and liquidity places us in a strong position to pursue future creative growth opportunities without the need to raise additional equity.

Turning to slide four, we have provided a review of our third quarter financial results. As I mentioned, our third quarter cash available for distribution of 12 cents per share was down from the second quarter due to a combination of seasonally weaker spot tanker rates, reduced time charter revenue due to the expiry of certain fixed rate charters, and a higher than usual dry-docking schedule, resulting in an additional 115 days of off hire occurring in the third quarter versus the second quarter.

Timing our dry-docking during the seasonally weaker summer market ensures that our fleet will be fully operational and optimally exposed to a potential winter market rally. Additionally -- as mentioned last quarter -- with the completion of our 13 vessel acquisition from Teekay Corporation in June, we have increased our reserve for debt principal repayments which lowers our dividends but enhances our shareholder equity.

Turning to slide number five, we have provided the details of our recent time charter transactions. In addition to the two previously announced time charter contracts we concluded in July, we recently extended the time charter out contract for one aframax tanker for a period of two years at a rate significantly above the current spot market.

Our one time chartered in vessel -- for which we are paying a rate of $11,750 per day for the firm period through to January 2013 is in the money when compared to the current Q4 average aframax rates of approximately $15,000 per day. Therefore, this ship is contributing meaningfully to our Q4 cash generation with additional in the money options to extend the ship through the first half of 2013 to take advantage of the anticipated stronger winter spot market.

On slide six we have provided an updated summary of Teekay Tanker's fleet employment profile. As I noted a moment ago, we continue to focus on locking in above market rates at a time when we expect to see continued spot market weakness and volatility. As a result of our recent fixed rate charter extension, Teekay Tanker's fixed cover for fiscal 2013 has increased from approximately 38% to 42%. Our current fleet consists of 28 owned vessels, one time chartered in aframax, and one 50% owned VLCC new building, scheduled to be delivered in the second quarter of 2013.

On slide seven, we provide our usual dividend outlook matrix for the fourth quarter of 2012 as well as a similar matrix which shows cash available for distribution for the same period based on our expected fleet and employment profile. Based on a weighted average of approximately 40% of days booked in the fourth quarter for aframax's and sewasmax's spot rates have averaged approximately $14,000 -- 700 per day -- and $13,000 per day respectively.

With our reserves for debt principal repayments increased to $5 million this quarter -- up from $450,000 per quarter prior to our 13 vessel acquisition from Teekay Corporation in June -- we have included the cash available for distribution matrix in this quarter's earnings presentation as we believe this measure better reflects Teekay Tanker's cash equity return.

Turning to slide eight, we look at recent developments in the spot tanker market. The third quarter each year is traditionally the low point for spot tanker rates and this year was no exception. Tanker fleet utilization -- as shown by the shaded area on the chart -- fell by approximately five percentage points during the quarter to just over 80%, the lowest level of fleet utilization since 1999. As a reminder, 90% is generally considered to represent full fleet utilization.

The decline in tanker fleet utilization during the third quarter of 2012 was largely due to a sharp reduction in tanker demand. There were a number of reasons why demand fell so sharply -- both structural and seasonal. Firstly, Chinese crude oil imports -- which had been averaging a record high 5.6 million barrels per day during the first half of 2012 -- fell to a low of 4.4 million barrels per day during August, the lowest level in nearly two years. This decline was due to a combination of seasonally weak demand, a slowing Chinese economy, and reduced imports for crude oil stockpiling.

Secondly, the third quarter of 2012 saw a significant decrease in crude oil exports from the Middle East -- in particular from Saudi Arabia -- as more crude oil was kept in the region for domestic consumption. Saudi oil demand typically spikes in Q3 as crude oil is burned directly in power stations during the peak summer cooling season. During this time, less crude oil is available for export from the Middle East, which is negative for tanker ton mile demand due to the long haul nature of these exports.

Finally, a number of normal, seasonal factors affected tanker demand during the third quarter including the onset of autumn refinery turn-arounds and a reduction in North Sea oil production due to field maintenance.

Looking at performance by sector, the large crew tankers were hit the hardest during Q3 as shown by the decline in sewamax spot rates which is the green line on the chart. In contrast, aframax rates -- as shown by the red line -- held relatively steady from the previous quarter while LR2 rates -- as shown by the yellow line -- showed an improvement from the very weak levels seen in the first half of the year.

Tanker spot rates have remained relatively weak through the first part of Q4, however slide nine outlines why we expect stronger rates to emerge towards the end of the quarter. The chart on the side shows aframax spot rates during the second half of the year for each of the past four years. The chart clearly shows that the spike in rates typically occurs in December when cold winter weather, transit delays, and shorter daylight hours start to have a meaningful impact on the tanker market. We expect that these winter market factors will start to impact spot rates in the coming months and we are already starting to see the first signs of weather delays in the Mediterranean with transit times through the Turkish Straights currently about five days per round trip.

Although we expect tanker rates to spike at times during the winter, we think that these spikes will be relatively short-lived due to the fundamental oversupply of vessels that currently exist. This means that any rate spike should be dampened relatively quickly as ships ballast in to take advantage of the stronger rates.

Turning to slide 10, we look at tanker market fundamentals for 2013. Our base case forecast is for tanker supply and demand to be finally balanced next year with tanker fleet utilization remaining in the low 80% range. On the supply side, we anticipate that tanker fleet growth will decline to around 3.5% next year, which would be the lowest level of tanker fleet growth since 2003.

Growth is heavily weighted towards the large crew tanker sectors with estimated fleet growth of around 5.5% for VLCCs and 7% for sewamaxs. By contrast, the aframax fleet is expected to shrink slightly in 2013 as scrapping of 1990s built vessels is forecast to outweigh new deliveries.

Looking longer term, we expect that tanker fleet growth will shrink further in 2014 due to the low level of tanker ordering over the past two years. Just 17 million dead weight tons of tanker orders have been placed since the beginning of 2011 despite new building prices being at their lowest since 2004. To put this into context, 25 million dead weight of tankers have been scrapped or removed from the fleet during the same period.

With respect to tanker demand, there are a couple of observations we can make from looking at the chart. Firstly, the demand side of the equation has far more uncertainty than the supply side as shown by the vertical lines on the chart which show the range of values we think might occur. This is partly because the demand side is more difficult to model due to the greater number of variables but is also a reflection of current uncertainty over the global economy and therefore oil demand going into 2013.

Secondly, we believe there is more downside to the demand outlook than upside given recent revisions to oil demand forecasts. At the moment, the major forecasting agencies are predicting oil demand growth of 0.8 million barrels per day in 2013, the same level of growth as in 2012. This figure has been revised downward from the start of the year when the EIA was forecasting demand growth of 1.5 million barrels per day.

The consensus view also predicts a lower call on OPEC crude next year which could mean shorter voyage distances than we have seen so far in 2012. For this reason, we think that tanker demand growth will come in at around 3.5% next year, about one percentage point lower than the 4.5% growth we have seen in 2012.

Wrapping up on slide number 11, Teekay Tankers remains financially strong and well-positioned for an eventual tanker market recovery. Teekay Tanker's total liquidity is currently 383 million. Places us in a unique position among conventional tanker companies to pursue accretive growth opportunities. Importantly, our strong balance sheet and available liquidity allows us to pursue future growth opportunities without the requirement to issue additional equity.

Finally, Teekay Tanker's favorable debt profile continues to provide us with low principal repayments through to 2016 and -- unlike most of our peers competing in the spot tanker market -- we have no financial covenant concerns, which provides us with considerable financial flexibility. With that, Operator, we are now available to take questions.

Operator: Thank you. If you would like to ask a question please signal by pressing the star key followed by the digit one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. If you have signaled for a question prior to these instruction on today's call, please repeat the process now by pressing star one again to ensure our equipment has captured your signal. We'll pause for just a moment to allow everyone an opportunity to signal for a question.

Our first question comes from Michael Webber from Wells Fargo. Please go ahead.

Michael Webber: Hey good morning, guys, how are you?

Bruce Chan: Good morning, how are you?

Michael Webber: Good. I wanted to touch first on the aframax re-charter. Obviously it's pretty solid and above market for an extended period of time. Can you talk a little bit about I guess some of the circumstances around that re-charter? How you guys were able to lock that down and then just maybe some incremental color there because it's certainly caught us by surprise.

Bruce Chan: Yeah, we're very pleased with that charter. It's to one of - a very good customer of Teekay's and it's a ship that fits into their requirements nicely and it's an extension of an existing charter, so it positions well for their requirements and as a result we've been able to achieve a rate that we think will serve us well over the period.

Michael Webber: Yeah, no, it's definitely above market. In terms of the aframax's in general, I mean, the to-date value that you guys have been able to generate in the spot market are a little bit better than we had expected as well. Can you maybe talk a little bit about what's going on there? Maybe geographically, are you shifting those away from the Pacific? What's really driving that aframax performance kind of quarter to date?

Bruce Chan: We're very pleased with the performance in a relative sense. It's actually not us shifting away from the Pacific; it's actually thanks to a significant amount of exposure in the Pacific where the markets tend to be stronger in this period. And so I think that's being reflected although we do have some ships in the Caribbean and that market is just very recently started to increase and so we're hopefully going to catch some of that spike as well.

Michael Webber: Gotcha. Right. One more and I'll turn it over. Kind of going through your matrix -- and as always that's helpful -- and the distributal cash matrix is helpful, too. In the footnote there you've got the $3.5 million dry dock reserve figure for Q4 -- which is I think roughly in line with what we had -- is that a good ballpark for what we should use for 2013 or do you think that's going to change appreciably with the larger fleet?

Man: That's a reserve, Mike, that is based on a five year rolling dry-dock schedule. So that's a run rate you should use for the foreseeable future on a per quarter basis.

Michael Webber: Great. Alright, thanks guys, I'll turn it over.

Bruce Chan: Thank you.

Operator: Thank you. The next question comes from (Justin Yageman) from Deauch Blank. Please go ahead.

Josh: Hi, good morning. It's actually Josh on for Justin.

Bruce Chan: Hey Josh.

Josh: Hey. Just want to touch on, I guess, your market outlook in the crude sector was - I guess, weaker than we've heard in the past and I was just wondering how you think about increasing some of your fixed rate coverage days in 2013. I know they've moved up a few percentage points, but if you're still expecting 80% utilization -- or at least weak utilization levels in 2013 -- I mean, should we be expecting to see some more of these charters?

Bruce Chan: Yeah, you know Josh, as we've done in the past we've certainly taken advantage of Teekay Corporation's relationships and tried to find charters when they're available. With the spot rates being low through the summer there hasn't really been a lot of opportunity to lock in rates that were attractive relative to the spot market although as the market improves here in the winter -- and as we've seen in prior years -- that's when we are sometimes able to find that type of time charter coverage.

And so it really depends on the winter market rally and what customers are looking to do to protect their coverage going forward as well.

Josh: Got it. On the product tanker side, I guess we've seen a bit more time charter activity there; you guys don't have any kind of spot MR exposure. Are there any plans to maybe charter in product tankers? Do it on a short-term basis with options attached?

Bruce Chan: Well as you've seen with our current aframax in-charter, there are opportunities to in-charter shorter periods with options and if it makes sense where we can employ it within our network at higher rates and have potential favorable options, that is something we will consider. But again, it depends on having the right ship and having the right rate structure where you don't take too much risk in the firm period and really try to isolate some optional extension periods.

Josh: So I would take it you're kind of seeing limited opportunities on both the crude and product tanker side for charter-in's, I guess, just given the lack of charter-in exposure at the moment?

Bruce Chan: In the core areas we do operate in most is aframax, LR2 area and that's, you know, there is some activity out there but again, you've got to find the right charter for that.

Josh: With regard to the LR2s are those trading dirty right now or are they trading clean?

Bruce Chan: Our LR2s trade - in Teekay Corporations Taurus tanker's LR2 pool. So they trade as a pool of around 20 LR2s primarily in the clean market. Though some of the ships opportunistically trade dirty.

Josh: And then I guess I have to ask on the new building side or I guess maybe fleet growth side, I guess, with the weak 2013 and potential recovery thereafter, I guess, to new buildings make more sense here and are you guys kind of getting close to or seriously considering placing any orders?

Bruce Chan: As Peter mentioned earlier, we have been looking at the - Teekay's corporations one spirit eco-friendly design that has significant fuel consumption savings over traditional ship designs and so that certainly provides a better opportunity to - for investment going forward. But as you way, the outlook for 2013 is more muted and so we're being patient and will continue the dialogue with shipyards but, you know, patience is still the order of the day.

Josh: I guess just one more question then I'll turn it over. With regards to the new design, does that have applicability for the smaller product tanker space or is that more for the larger crude and maybe potentially LR2 side?

Bruce Chan: It has applicability on all of those sizes.

Josh: Okay, great. Thank you for the time.

Bruce Chan: Thank you.

Operator: Thank you. The next question comes from John Chapel from Evercore Partners. Please go ahead.

John Chapel: Thanks. Morning guys.

Man: Hey, John, how are you?

John Chapel: Good, thanks. Bruce, a couple details on the dry-docking. You mentioned 115 more days in the third quarter. Can you talk about, number one, which ships were involved in the three Q dry-docking and then the costs associated with those because - and whether you're expensing that or not? Because the alfax was pretty meaningfully higher than what we had been forecasting for the full fleet.

Bruce Chan: Hey John. Yeah, there were three sewamaxs that dry docked in the third quarter. They were the Ganges, Isanti, and Yuna. And the dry-docking costs are capitalized and depreciated to depreciation expense. But as you known we put a reserve on the dividend of 3.4 million per quarter based on the five year dry-dock schedule. So in the fourth quarter we have one dry-dock -- which is an aframax tanker -- on a fixed rate charter for about 35 days.

John Chapel: Yeah, I saw that guidance in the appendix of the Teekay presentation where you gave good, I guess, transparency on the dry-docking schedule. I guess, two things there then. Number one, can you kind of give us which ships are involved in the 13 dry-docking -- at least maybe by asset class to try to figure out the impact on the bottom line and then I guess also as a follow up on my first question was there maybe some costs associated with the Caiema that could have fallen into the third quarter and what kind of fourth quarter op-ex run range should we be looking for?

Vince Locke: Yeah, the Caiema incident - there was a $200,000 deductable that was an op-ex in the third quarter and about seven days of off-hire. And then we also had some additional repair costs on the Nassau Spirit on the third quarter which increased the third quarter op-ex.

In the fourth quarter it's really the 35 days of off-hire for the Caiema and no additional op-ex related to that because it's covered by insurance.

In terms of your question about 2013 dry-docks, there's six sewamaxs and three aframaxs that are scheduled for dry-docking next year.

John Chapel: Okay. That's awful, thanks Vince. Two more quick ones. One, on the quarter to day bookings, Bruce, you had mentioned the recent spike in the Carribs and that's been really recent - kind of post-hurricane in this region. That 40% that you quote so far, what's the cutoff date for that? I'm just trying to get a sense for if that spike in TD9 is reflected in that 14-7 at all.

Bruce Chan: No, it wouldn't have been. That cutoff date was last week or even 10 days ago.

Man: November (unintelligible).

Bruce Chan: November, yeah, so. That very recent spike is not included in that.

John Chapel: Alright. And then the last question -- and I ask this almost every quarter but I think there's a little bit more sense of urgency given what's happened in the last 24 hours -- has there been any more thought to maybe a fixed quarterly dividend because clearly anybody who tracks the market or even looks at your matrix should have known that the dividend would be down pretty meaningfully sequentially given the third quarter rate environment.

But also clearly there's a fair amount of people in the markets who are taken aback by the magnitude of the decline and it's coming out of your stock price today, so any way to kind of give more of a smoothing out of the distribution by going fixed at some point.

Bruce Chan: Yeah, I mean, we've been consistent with our policy and as you say it's been very predictable. People have been looking at falling rates and our table and that's the beauty of the dividend policy. And so, you know, that's about -- our consistency I think is showing through here and, you know, that's where - that's the policy we are looking to continue.

John Chapel: Alright. Well, I guess it works both ways and based on your fourth quarter matrix it should be up sequentially, so I appreciate the time. Thanks Bruce, thanks Vince.

Vince Locke: Thank you.

Operator: Thank you. The next question comes from Christopher Comb from JP Morgan. Please go ahead.

Christopher Comb: Yes, hello. I just had one follow up question. With respect to your comments on the supply-demand outlook I get the sense that it's mostly a diminished macro reducing the range on demand side it looks like the top end you cut from 6% to 4.5 or so. Is that in fact all macro? And I was just wondering if you have any explicit assumptions about Chinese reserve build out and how much of a swing factor you think that might be in '13?

Bruce Chan: Yeah, I think the demand is all macro and it factors in all those things. So it factors in what the forecasting agencies are - figuring out where the demand is coming from and where the production is likely to come from. So I mean, it's really a factor of all of those things into one.

Christopher Comb: Okay. And I imagine you don't have much of a - really a base case for Chinese reserve. You see it as mostly opportunistic on oil price or any other key drivers?

Bruce Chan: Yeah, I mean, I think it's just one of the points that could potentially bring it in to the higher end of that range and conversely -- if it doesn't occur -- its' kind of the lower end of that range but that's exactly the uncertainty that is showing why that that's such a wide range on the chart there.

Christopher Comb: Okay. And then the last question -- just to be clear -- in Q4 you don't expect any off-hire from dry-dock or special survey? They're all scheduled in the summer?

Vince Locke: I mentioned earlier there is one aframax that's off-hire for 35 days.

Christopher Comb: Okay. And then the 9 next year, yeah.

Vince Locke: That's correct. Yep.

Christopher Comb: Got it. Thank you.

Operator: Thank you. The next question comes from Ken Hoxter from Bank of America. Please go ahead.

Wilson: Hey good morning guys, it's actually Wilson sitting in for Ken. If I could start off with a quick question about the VLCC notes that come due next year. How do we think about where you guys input that capital use. I mean, obviously I think when you guys did it the other time it seemed like a pretty decent use of capital in terms of, you know ,borrowing at a much lower rate and getting that return on it. Do you guys see, kind of yourselves doing something similar or how do we think about that capital as it comes pick up straight up?

Bruce Chan: Hey Wilson, you're right. I mean, at the time it was an attractive deal and if that deal comes to an end in June and we'll be looking to re-deploy it. As to where, again, it would be a mix of what's available at the time and what opportunities present themselves.

Wilson: Sure. And I mean, is there - I think we've already touched about this before, but is there any interest in looking at ownership in the kind of VOCC space or is that kind of more of a one off kind of, you know, attractive investment that presented itself?

Bruce Chan: Yeah, that investment was a one off. We do have the one VLCC new building that is under construction now and they'll be entering a five year fixed rate charter and so additional VLCC exposure isn't our primary focus.

Wilson: Sure. And just as a last follow up, could you guys give me an update on kind of your potential liquidity that you have on hand as we kind of think about, I guess - or how much (unintelligible) you guys would have to look at deals and what have you?

Bruce Chan: The current liquidity -- as we said -- is $383 million and it has very favorable terms through the next few years and so it's been something that we've been - we've had available for us and we've been patient in employing and will continue to be looking for opportunities.

Wilson: Great, sounds good. Thank you for the time.

Bruce Chan: Thank you.

Operator: Thank you. Ladies and gentlemen as a reminder if you would like to ask a question please press star one on your touchtone phone. There are no further questions at this time, please continue.

Bruce Chan: Thank you Operator and thanks everyone for joining.

Operator: Thank you. Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation. You may now disconnect your lines and have a great day.

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