TEEKAY Tankers LTD.

Moderator: Emily Yee
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12:00 pm CT

Operator: Welcome to Teekay Tankers Limited's fourth quarter and fiscal 2012 earnings results conference call. During the call all participants will be in a listen only mode. Afterwards you will be invited to participate in the question and answer session.

At that time if you have a question, participants will be asked to press star 1 to register for a question. For assistance during the call please press star 0 on your touch-tone 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's chief executive officer. Please go ahead sir.

Kent Alekson: Before Mr. Chan begins I would like to direct all participants to our Web site at www.teekaytankers.com where you will find a copy of the fourth quarter and fiscal 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 the forward-looking statements is contained in the fourth quarter of fiscal 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: Thanks Kent. Hello everyone. 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 Chief Executive Officer.

During today's call I will be taking you through Teekay Tankers' fourth quarter earnings results presentation which can be found on our Web site. Beginning with our recent highlights on slide 3 of the presentation, Teekay Tankers generated cash available for distribution before reserves of $0.13 per share in the fourth quarter.

This is up slightly from the $0.12 per share generated in the third quarter mainly due to stronger spot rates earn by our LR2 product tankers that provided a lift to overall earnings. We reported an adjusted net loss of $0.09 per share in line with our adjusted net loss reported in the third quarter of 2012.

The company declared a dividend of $0.03 per share for the fourth quarter which is Teekay Tankers' 21st consecutive quarterly dividend and will be paid out on March 11 to all shareholders of record on March 4. Our dividend remains liquidity neutral and in the fourth quarter all cash available for distribution after reserving for debt principle repayments and estimated dry dock expenses, will be distributed to shareholders. We continue to focus on managing our fleet to ensure we maintain strong fixed cover during this period of cyclical weakness in the tanker markets.

During the fourth quarter we concluded a number of in and out charter transactions which, when taken together, maintained our fixed rate coverage for fiscal 2013 at 42% while providing Teekay Tankers with extension options to increase its tanker market exposure should spot rates exceed the option rate levels. In line with managing our fleet exposure to the spot market, we completed the sale of a 1998 built Aframax tanker that had been trading on the spot market for net proceeds of $9.1 million.

Teekay Tankers remains financially well positioned with total liquidity of $327 million as of December 31 with no significant debt maturities until 2017 allowing us to evaluate future growth opportunities without the need to raise additional equity at TNK.

Lastly, reflecting a change in our previous approach of funding fleet growth through follow on equity offerings, the Teekay Tankers board of directors has amended its dividend policy from a variable dividend to a fixed dividend commencing with the first quarter of 2013 dividend payable in June 2013. The dividend will be fixed at an annual level of $0.12 per share payable quarterly which allows the company to retain a portion of our operating cash flow to fund future growth rather than require an equity offering which would be dilutive to our shareholders at today's low share price.

Turning to slide 4, we have provided a review of our fourth quarter financial results. As I mentioned, our fourth quarter cash available for distribution of $0.13 per share was up slightly from the third quarter as seasonally stronger spot tanker rates were delayed into the latter part of the quarter and lower OPEC oil production offset any substantial firming and tanker rates.

On a positive note, our long range product tankers benefited from increased demand for product shipments. A trend we believe will continue in the medium term due to increased refinery capacity east of the Suez Canal.

Turning to slide 5 we have provided the details of our recent time charter transactions and vessel sale. We continue to actively manage our operational leverage by pairing time charter out contracts with in the money time charter in contracts to maintain our current 2013 fixed coverage of 42% while locking in additional cash flow.

On a combined basis, the recent time charter transactions on the Aframax tankers Esther Spirit and BM Breeze will generate a fixed profit of over $3000 per day for the next year. Moreover, the optional charter periods on these contracts provide Teekay Tankers with additional up sight to extend our spot market exposure should the tanker market improve.

In addition to our recent chartering activity we also proactively sold our oldest ship, a 15-year-old tanker trading spot avoiding expensive dry docking costs while reducing the company's exposure to older vessels that face increasing discrimination from charterers in the current weak tanker marker. Turning to slide 6 during the fourth quarter we recognized a non cash vessel impairment charge of $353 million primarily related to our Suezmax fleet acquired from Teekay Corporation, but initially acquired by Teekay Corporation as part of the OMI Corporation acquisition in mid 2007 at a high point in the cycle for vessel values.

Due to drop down accounting rules, vessels acquired from Teekay Corporation are recorded on Teekay Tankers' balance sheet at Teekay Corporations original purchase price as opposed to the actual purchase price paid by Teekay Tankers. As you can see from the asset value graph on the right of the slide, vessel values over the past five years have fallen significantly and ships recorded on the books at these historically high values have become impaired.

As a reminder, vessel impairment analysis under US GAAP is a two-step test with the first step comparing estimated undiscounted future cash flows to the current vessel book values on an individual ship basis. If the estimated future cash flows on an undiscounted basis are less than the current book value, even if by a relatively small amount, the vessel would fail step one and therefore would require a write down to fair value under step two.

Earlier in 2012 we estimated that a recovery of the conventional tanker market could begin in the latter part of 2012 or early into 2013. Over the course of last year the market sentiment and our views on this changed and by the fourth quarter of 2012 it was apparent that such a recovery would likely not occur in this timeframe.

As such, the delayed market recovery has contributed to a reduction in our estimated future cash flows from our conventional tanker fleet. With lower estimated future cash flows and relatively high book values, these vessels failed the step one test in the fourth quarter. And given the large decline in vessel values as shown in the graphs, the resulting impairment charges required for these vessels under step two of the test were significant.

It is important to note that for the 13 vessels TNK acquired in June 2012, if these ships had been recorded on our balance sheet at Teekay Tankers actual purchase price at that time, which was lower than Teekay Corporations book value, none of those vessels would have been written down. As a result of the vessel write down our annual depreciation expense is expected to reduce by approximately $22 million or $0.26 per share commencing in 2013. I would like to stress that this vessel impairment charge is non cash in nature and does not impact the company's cash available for distribution or cash dividend nor does it affect any covenants related to Teekay Tankers' debt facilities.

Moving to the market slides on slide 7 we summarized developments in the spot tanker market during 2012. Last year can be characterized as a year of two halves. In the crew tanker sector strong demand in the first half of the year gave way to a weaker second half, particularly for the Suezmax sector as shown by the bars in the top of the slide.

Demand for crude tankers in the first half of the year was driven by crude oil stockpiling ahead of the EU sanctions on Iranian oil which took effect from July 1 coupled with high levels of global oil production, particularly from OPEC. The combined effect of crude oil demand for stockpiling purposes and an increase in long haul OPEC barrels led to a significant increase in crude tanker ton mile demand throughout the first half of 2012.

Looking at the second half of 2012 the picture was very different with rates in the large crude tanker segments falling to historically low levels during the summer months. This collapse in rates was due to much lower levels of tanker demand once oil inventories had been replenished coupled with reduced OPEC oil production.

Rates did exhibit a modest rebound six month highs in the fourth quarter on the back of regular seasonal factors. However, tanker rates have since weakened in the early part of 2013. In the product tanker market the pattern of earnings was opposite from the crude sector with a very weak first half of the year giving way to a much stronger second half.

LR2 spot rates reached a three year high of approximately $20,000 per day during the fourth quarter of 2012 driven by a combination of increased long haul Naphtha movements into Asia and reduced competition from crew tanker new buildings on the east to west gas oil trade. Rates have since moderated slightly though earnings in the LR2 sector continue to outperform the Aframax and Suezmax crude sectors. Turning to slide 8 we take a look at developments in tanker asset prices.

Secondhand tanker prices, as shown by the green line on both charts, held relatively steady through the first half of 2012 supported by a relatively strong freight market environment as outlined in the previous slide. However, asset values declined in the second half of the year in tandem with the weakening freight market and by the end of the year stood approximately 15%

lower than they did at the start of 2012. In total, tanker asset prices have declined by approximately 60% since the peak of the market in mid 2008.

Although prices declined in 2012 we believe we are at or near the bottom of the ship price market. This is borne out by some of the sales that we saw during the latter part of the fourth quarter which were concluded at price levels similar to, or in some cases, above last done.

In the new building market, illustrated by the blue lines on both charts, we also believe that prices are at or near the bottom. In recent weeks we have seen a strengthening in the Korean Won versus the US Dollar as well as higher steel prices.

Both of which add support to new building prices. In addition, the last three months have seen an uptick in vessel ordering activity at the top tier shipyards. Not just for tankers, but also for container ships, LNG carriers, and offshore units. Together these factors should put a floor under new building prices in the coming months and we believe that any reduction in prices from here on will be minimal.

Slide 9 illustrates our outlook for tanker fleet utilization as shown by the green area on the chart which we believe will reach a bottom during 2013 before undergoing a modest recovery next year. For the year ahead we forecast tanker demand growth of approximately 3.5%, a reduction from 2012 levels due primarily to expected lower OPEC oil production leading to a reduction in average voyage distances.

However, with the fleet growth forecasted to be around 3.5% the net result is no change in tanker fleet utilization with spot rates expected to be broadly similar to those experienced in 2012. For 2014 we believe that tanker fleet utilization will begin to improve spurred by lower tanker fleet growth and higher tanker demand growth on the back of a recovering global economy.

Should the level of new tanker ordering remain low through 2013, which we believe it will partially due to a lack of available financing for most owners, then this recovery should extend beyond 2014 and lead to a period of improved tanker rates. Looking at the supply demand balance by segment, we believe that the Aframax and LR2 sectors offer the best fundamentals due to their small order books and favorable demand outlook. Particularly for LR2s as I will outline on the next slide.

Slide 10 looks at the changing landscape of the product tanker market. In particular, the growth in long haul product tanker movements which we expect will emerge over the next few years. On the map, regions colored in blue are those which are expected to see growth in refining capacity over the next five years, while those in red are expected to see a decline in refining capacity.

Refining capacity in the US is expected to remain unchanged during this time, though this masks some regional disparities with refineries on the East Coast and in the Caribbean at risk of closure while refining capacity in the Midwest, US Gulf, and West Coast regions could expand due to the benefit of access to cheap shale oil. The arrows on the chart show some of the long haul product trade routes which we expect to grow as a result of these refinery changes. The Middle East and India are expected to become increasingly pivotal as suppliers of refined products particularly to Europe, but also to Asia, Australia, and Latin America.

Naphtha movements from both Europe and the Middle East to Asia are also expected to increase due to growing demand from Asian petrochemical plants. Finally, the expansion of the Panama Canal from 2015 coupled with the rapid growth and product exports from the US Gulf could lead to an increase in product movements from the US to Latin America and even to Asia.

In sum, changes to global refining patterns are expected to be very positive for the global products trade in the coming years. And an increase in long haul movements is expected to be particularly beneficial for LR2 demand.

Turning to slide 11, Teekay Tankers remains financially strong and well positioned for growth. Our total current liquidity of $327 million places us in a unique position among conventional tanker companies to pursue accretive growth opportunities without the need to issue new equity in Teekay Tankers.

As discussed on slide number 6, the vessel impairment charge in our fourth quarter results was non cash in nature. It had no affect on any of the covenants related to our debt facilities. This lack of covenant concerns provides us with considerable financial flexibility.

Teekay Tankers' favorable debt profile continues to have low principle repayments through to 2016 as well as low levels of debt amortization enabling us to retain our available liquidity for future investment opportunities. In addition to Teekay Tankers strong balance sheet, we believe moving to a fixed dividend policy provides a sustainable dividend level based on our existing fleet size and employment mix.

This prudent policy will enable us to retain an increasing amount of operating cash flow as the tanker market recovers to invest at an opportune time in the tanker cycle and therefore increasing the total value created for Teekay Tankers shareholders over the long term. Wrapping up on slide 12, we provide a cash available for distribution outlook matrix for the first quarter of 2013 based on our expected fleet employment profile as well as guidance on our ((inaudible)) recorded in the quarter thus far.

Based on a weighted average of approximately two-thirds of days books for the first quarter for Aframax, LR2, and Suezmax spot rates have averaged approximately 10,800 per day, 15,400 per day, and 13,400 per day respectively. We have continued to include our cash available for distribution matrix in this quarter’s earnings presentation as we believe this measure continues to reflect Teekay Tankers' cash equity return even though the company has moved to a fixed dividend policy.

Even in a low spot rate environment Teekay Tankers generates positive cash available for distribution allowing us to pay a fixed quarterly dividend from vessel earnings while retaining operating cash flow for future growth opportunities. With that, (Michelle) 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 1 on your telephone key pad. 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 hearing these instructions on today's call please repeat the process now by pressing star 1 again to ensure our equipment has captured your signal. We will pause for a moment to allow everyone the opportunity to signal for questions. The first question comes from Jon Chappell of Evercore Partners. Please go ahead.

Jon Chappell: Thank you. Good morning Bruce.

Bruce Chan: Good morning Jon.

Jon Chappell: So my first question has to do with the fleet expansion initiatives and those pretty interesting charts you had on slide 8 showing the big disconnect now between the new builds and the second hand values. So as you kind of look at the capital allocation process and whether you want to invest in the new technology which supposedly has significant fuel savings, but you wouldn't get the ship for a couple years or invest in a ship that you can get in the water today that's at a significant discount to the new technology, how do you kind of go through that decision and where do you think TNK will move with kind of the next phase of the expansion plans? New builds versus second hand.

Bruce Chan: You know, Jon I guess that is the exact kind of decision we're looking at. I mean on the water assets as shown on that chart does have a significant discount. I think a large part of that discount is due to the current weak tanker market.

And so it's a tradeoff of having those assets immediately on the water which means they're generating negative cash flow potentially in the first part of their lives and then recovering versus as you said the fuel efficient ships which has a much lower cash break even over the long run and by virtue of being a new order, doesn't - isn't on the water for a couple of years.

And so that's kind of the tradeoff in terms of why they're probably at a higher price. You're avoiding that period of low market earnings.

But we certainly are evaluating both and we've done a lot of work on our own fuel efficient design and we do believe that that is the way that the tanker market will be moving in the future and so we'll be looking at both opportunities.

Jon Chappell: Okay. And then as we think about expansion versus replacement, you obviously got rid of the Nassau. You have three other vessels that are all the same age one of which is on spot today, the other two which will be on spot by the end of the year. Do you anticipate ridding those vessels from your fleet before their third special surveys?

Bruce Chan: Yes in today's market ships that are over 15 years of age unfortunately do face discrimination by charterers and earn lower rates. We don't have any ships that will be of that vintage for over another year. But that will be a consideration at that time.

In terms of our charter fleet, I mean we are looking at that portfolio. And as you've seen in some of the transactions the positive ARB and seeing owners that are willing to charter ships to us at $11,100 a day provides again, more - hopefully more opportunities in this low market for us to add additional operating leverage into the recovering market which we are confident will happen at some point in the future.

Jon Chappell: Just one last one for me, probably for Vince. The liquidity dropped by 56 million quarter over quarter it seems from the undrawn part of the credit facility. Was this a scheduled amortization and if so, is there any other scheduled amortization of the undrawn parts of the facility that we should be aware of?

Vince Lok: Yes that is the schedule amortization of the existing revolvers so they amortize semi annually roughly about 45 million every six months. That's the schedule.

Jon Chappell: Okay thanks Vince. Thanks Bruce.

Operator: Thank you. The next question comes from Justin Yagerman of Deutsche Bank. Please go ahead.

(Josh): Hey good morning. It's (Josh) on for Justin. I just wanted to touch upon the current market. And you put the slide in there showing the strength we saw last year compared to the, I guess, the weakness in the back half.

And like you said, a lot of it had to do with Iran but, you know, I guess as you look out towards like Q1, early Q2, you know, I guess how are you viewing seasonality this year and the ability for rates to move higher. And I guess maybe, you know, I guess maybe maintain better rates through the summer compared to last year?

Bruce Chan: Well, as you said this last winter we saw some spikes, but the supply picture of ships coming online and ships at the end of the year a lot of orders get delayed into the first part of the year. People want to have 2013 stamp on them instead of 2012 so you see ships coming out of the shipyard in the first quarter are traditionally a little bit higher.

And so that supply - increased supply continues to put that damper on the volatility. And so we're not overly optimistic for a strong rally right now as you can see in our - in the chart that shows utilization we actually see it coming down slightly this year as the supply is finally balanced with the increased demand.

And it's not until next year that we start seeing an alleviation of the order book. Having said that, the one right bright spot, if you could say that, is on the Aframax LR2 area where the fleet will - may actually contract this year depending on scrapping levels. And so that's an area, as you've seen also with LR2 rates in the fourth quarter and the first quarter, being stronger than both of our crude segments.

(Josh): I'm I guess switching gears to the expansion efforts, I guess in the past, actually this morning and the past few weeks, we've seen a lot of capital markets activity with investors looking for product tankers over crude. I guess, how do you guys think about the opportunities in product tankers? Are you concentrating moreso on the LR2s rather than some of the smaller product tankers? Or are you guys, you know, looking more on the asset play on crude?

Bruce Chan: Yes (Josh) we're, certainly as the slides indicate here, focused on the LR2 sector. That's an area where first we have through our - thanks to our sponsors, large pool, the Taurus tankers pool. We operate over 20 ships in that sector, the second largest operator of that size fleet already giving us good access and good utilization.

Combined with the order book for that sector and our ability to trade again between clean and dirty in that segment is the area that we certainly are most looking at.

(Josh): And with regard to preference of crude over product requisitions?

Bruce Chan: Yes I mean it would be, again that LR2 sector, the beauty of it is that for example, on a new building it's about $2 million more to coat and it can be an LR2 product tanker. But it also has the ability to trade crude. So if the crude markets rebound or have seasonality as they usually do or spikes that you can kind of capture the strong fundamentals of the LR2 market with the spikiness of the upturn in certain parts of the crude market and really have good returns.

(Josh): That's fair. I guess just trying to get a sense on the status of your design and I guess as you put it out there maybe a year or so ago and, you know, just kind of waiting for orders. Is the issue right now price or is it still working through technical matters and getting comfortable with the yards and actually constructing?

Bruce Chan: Yes I mean we've certainly put a lot of work into ensuring that we choose the right ship design but, you know, the basics of a ship are still largely the same. I mean we're tweaking hull lines and engine types, but there's nothing really technically - we're not creating a, you know, a 787 here of carbon fiber.

So it's not really a technical thing, it's really just down to making sure we just got the overall best ship that has the best consumption and trading flexibility going forward.

(Josh): Well I appreciate the time guys. Thanks.

Operator: Thank you. The next question comes from Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hey good morning guys. How are you? Hey good. Bruce I just wanted to touch on a couple points of clarification and you mentioned that the write down not having an effect on your liquidity or your covenants. When you say not having an effect on your covenants, it's not an effect on your covenant status or does it actually not move the value associated with your collateral maintenance numbers?

Bruce Chan: It doesn't move the value of our collateral maintenance because the accounting test is relative to account of the historical right? So the values have always been the values. It's not like they've changed other than the absolute value of ships coming down over the last five years.

Michael Webber: Okay all right. No, that is ((inaudible)). I guess, it's already been kind of forced over a couple times but, you know, you move the fix of the dividend to preserve cash. You know, it comes at an interesting time because, you know, we're actually just now starting to see tankers ((inaudible)) raise equity at reasonable discounts for the first time in several years.

You know, I'm curious as to maybe how that factored into you all's decision and then kind of within that context, you know, what's changed between now and, you know, say, you know, the spring of last year around the drop down that makes you want to start preserving cash now?

Bruce Chan: Yes I think that's a fair question. What we've been looking in the past with our dividend is that, you know, we've been patient as you've seen with our track record we haven't done acquisitions or ordered new ships to expand our exposure other than the drop down. And so the dividend policy was fine then, but now at this - we feel this is an opportune time in the cycle to be looking at investments.

We believe that the market is closer to a rebound and that the opportunities are coming and this is a way to balance out a fixed consistent dividend to shareholders, but also generate and strengthen the balance sheet and allow us to really make counter cyclical investments at what we think is going to be a very interesting time.

Michael Webber: Fair enough. And I mean it kind of sounds like, you know, you guys are looking to build cash the longer term and I, you know, A, are the dividends going to be reevaluated on a quarterly basis and I guess what would it take to really move that dividend higher? It seems like we're a long way away from that now. But just how do you - how are you guys going to approach that? What's kind of the long term goal?

Bruce Chan: Sure we will look at it but, you know, right now it's - the money - what we're looking to really doing is employing that excess operating cash flow and making the long term investment. And when the market turns the other way then we'll reevaluate, but the first primary focus is generating strengthening that balance sheet and putting that excess cash flow to work.

Michael Webber: Fair enough. Just one more question and it's a bit more technical on modeling. You kind of look at slide 11 on your presentation. That 26 million in amort, just to be clear, if you guys draw on the excess credit does that amort go up or does that get thrown out of your excess credit facility? Or the excess within your credit facility?

Bruce Chan: No there's - we can draw on it. It doesn't change the amortization. So what I indicated earlier to (Jonathan).

Michael Webber: Okay so the cash - the cash doesn't change? Okay all right thanks for the time guys.

Bruce Chan: Thanks (Mike).

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

Ken Hoexter: Hey great. Good afternoon. Bruce can you just talk a little bit about the shift of dividend policy? I'm sorry if you ran over this. I got cut off for a bit. But, you know, such a large ship to go to a fixed dividend, maybe just - can you expand on why now? You know, given that if you - is this because you anticipate the rebound so you want to make those investments or kind of give the thought on why the board decided to do this now.

Bruce Chan: Yes exactly, Ken. As we were saying to (Mike) earlier, it's exactly that. This is the - we see this as the right time to be looking very seriously at putting money to work and making counter cyclical investments.

And that hadn't been in the past. Our track record has shown that we've been patient but, you know, we've gone through multiyear low part of the tanker market and we're in a position where other people aren't which is to be looking at growing. And this is just a further way of, again fixing the dividend level that gives people visibility even in a low tanker market but also strengthens our balance sheet to be in a better position to make these counter cyclical investments.

Ken Hoexter: All right and again, I'm sorry if you hit on this. But, you know, you mentioned in your prepared remarks the shifts of location of refineries and assets. Does that, you know, change any kind of a way of how you think about which assets you want to be buying going forward? Does that mean you focus more on product as opposed to tanker? Can you give kind of some thoughts on that?

Bruce Chan: Yes, I mean we really are focused on the LR2 sector which is an area as you've seen on the prepared remarks and on the slides where we see a lot of shift in the market dynamics which will create increased demand. But as you know, we are - we're focused with our Taurus tankers pool with over 20 ships and that has a benefit of those - and that ship size of being able to switch to being crude tankers.

So we believe that we have the long run growth positive dynamics for LR2s, but with the ability to switch to crude if there is increased volatility and higher rate - periods of rates for crude. And so that is our - that's why we like that segment the best.

Ken Hoexter: And then just finally, given the dividend shift of policy now, is that a statement on your part of looking at attractive assets now or is that just so you can start building the cash going forward.

Bruce Chan: It's the fact that we are building cash and are actively looking at putting that money to work.

Ken Hoexter: All right appreciate the time. Thanks.

Bruce Chan: Thanks Ken.

Operator: Thank you. The next question comes from Sandy Goldman of Front Barnett. Please go ahead.

Sandy Goldman: Yes on the product tankers, if you were to make a decision that you would like to enter into a new building or product tanker when would you get delivery?

Bruce Chan: It varies but it would be late second half, kind of 2015-2016 is the range of where ships are delivering in that.

Sandy Goldman: Okay you made the comment at the beginning that you said the outlook was good for the medium term. Is the medium term taking you into 2015 and 2016?

Bruce Chan: I think what we're saying is that we're still seeing periods of short term, I mean, while LR2 rates have been good in the fourth quarter and the first quarter, it's moreover a longer period that we see this as a good fundamental. But that doesn't mean there won't be periods of weakness.

Sandy Goldman: Okay but you would consider entering into a new building contract then now? For delivery at 15 or 16.

Bruce Chan: Yes, as we head right into the improving fundamentals that's a very - would be an appealing strategy.

Sandy Goldman: Okay the other question I've got is, is there any major fuel economy coming out of the VLCCs or the Suezmax's that are coming out of the yards now?

Bruce Chan: They are certainly, every year just like cars, they get a little bit better. But, you know, the real shift change is ones that are delivering a little further out. It really depends. The ones coming out now dependent on, it's kind of a mix.

Some of the owners have some fuel efficiencies in them and some of the orders were placed kind of off some of the older designs. So it's more of a mix, the ones coming out now.

Sandy Goldman: So far. Okay you said earlier that people who have a 20-year-old vessel could be disadvantaged. When do you reach the point when there's an 8 or a 10-year-old vessel disadvantage.

Bruce Chan: Well right now actually ((inaudible)) 15-year-old vessels are being disadvantaged right now.

Sandy Goldman: I mean, you meant 15, that's what you said. Excuse me.

Bruce Chan: Right now there's really no technological reason for or safety reason. A well maintained ship, there's no regulation on a new double hull that prevents it from trading out past 20 years. What happens obviously in a period of weak markets, the charters have plenty of choice and they can choose newer ships. But as we see in markets where back to normal, more normal utilization tanker markets, that age discrimination tends to disappear.

Sandy Goldman: Lastly, given the very sharp decline in stock prices of a lot of your competitors as well as you, are there possible acquisitions or merger candidates? I mean obviously you can't talk about who, but I mean is stuff getting attractive from your point of view to look at to buy or to merge?

Bruce Chan: Not now. I think really the focus on us is select assets either on the water or new buildings with the tankers of the future with the lower cash - better cash break evens going forward.

Sandy Goldman: Thank you very much.

Bruce Chan: Thanks Sandy.

Operator: Thank you. The next question comes from Chris Combé of JP Morgan. Please go ahead.

(Nish): Hey guys this is actually (Nish) for Chris. Thanks for the presentation and a lot of my questions have been answered, but just one quick thing on growth prospects. I was wondering for new vessels coming on line as you look at second hand acquisitions and new builds if there's a specific IRR or return equity you guys are targeting given the fact that you have, you know, a good amount of room on leverage to kind of tread lever up that transaction?

Bruce Chan: You know, I think the way the market values are now after a season of lows you can have reasonable return expectations. Obviously it depends on the - how fast and how robust the return is. We target high IRRs but where the factors are converging right now, it does look like it's kind of aligning to being a good IRR prospect out over the medium return right now.

(Nish): Okay do you have any kind of benchmark or ((inaudible)) to provide on that by chance?

Bruce Chan: No, that's not - we are looking at making the right long term investment right now and again that number is so wildly different. As you can see vessel values have fallen more than 50% over the last five years and so if that's the indication of what the upper ((inaudible)) of some of the IRR could be on the return that's what we're looking. But it's so variable it's hard to pinpoint.

(Nish): Okay and then given the fact that you have, you know, 300 million or so of undrawn lines, is there kind of a leverage target you guys are looking at in terms of percentage of capital mix?

Bruce Chan: There isn't like a set target, but we certainly balance out leverage - that leverage with the opportunity to invest. But at this point in the cycle this is the time to start levering out because asset values are so low. The leverage on an asset value may initially seem high, but you naturally delever over time as the asset values increase.

(Nish): Yes absolutely. All right great. Thank you so much time for the time guys.

Operator: Thank you. There are no further questions at this time.

Bruce Chan: Thanks (Michelle) and thanks everyone for joining us.

Operator: Ladies and gentlemen this does conclude the conference call for today. You may now disconnect your line and have a great day.

END