TEEKAY TANKERS LTD.

Moderator: Bruce Chan
May 17, 2012
12:00 p.m. CT

Operator: Welcome to Teekay Tankers Limited first quarter 2012 earnings result conference call.

During the call, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a question-and-answer session. At this 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 0 on your touchtone phone.

As a reminder, this call is being recorded.

Now for opening remarks and introductions, I'd like to turn the call over to Mr. Bruce Chan, Chief Executive Officer. Please go ahead sir.

David Rajanayagam: 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 first quarter 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 first quarter 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 David. 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.

I'd now like to discuss Teekay Tankers results for the first quarter of 2012. The associated presentation can be found on our Web site. Beginning with our recent highlights on slide number three of the presentation, our dividend policy remains unchanged. We continue to pay out essentially all of our free cash flow in the form of dividends to shareholders after reserving for estimated dry dock expenses and principle payments.

In the first quarter, Teekay Tankers declared a dividend of 16 cents per share, up from 11 cents per share in the previous quarter. Thanks to a stronger spot market for Suezmax's 11 cents per share in the previous quarter. Thanks to a stronger spot market for Suezmax and Aframax, our first quarter dividend which is our 18th consecutive quarterly dividend will be paid out on June 5th to all shareholders of record on May 29th.

Our tactical approach to managing our fleet employment and our preference for fixed rate coverage at this point in the tanker cycle has enabled us to consistently pay a dividend each quarter. Our fixed rate fleet earned an average of $21,000 per day in the first quarter. More than $3,000 per day higher than the average rate of $17,800 per day earned by our spot traded vessels in the quarter.

Excluding the impact of non-cash items, which have been summarized in the Appendix A to the earnings release, we reported adjusted net income of 3.1 million or 4 cents per share. Finally as announced in April, Teekay Tankers have agreed to acquire 13 conventional tankers and related time charters and debt facilities from our sponsor Teekay Corporation for a total purchase price of approximately 455 million.

Turning to slide four of the presentation I will briefly review the highlights of our strategic 13-vessel acquisition from Teekay Corporation which is on schedule to close in June. The 13 vessels to be acquired include seven midsize conventional tankers, Aframaxs and Suezmaxs and six product tankers with an average age of seven years.

The transaction will make Teekay Tankers one of the largest owners of quality midsize conventional tankers and will provide the company with a strong market position at a time of increasing discrimination by charters against older tonnage.

Additionally the acquisition provides TNK with exposure to the product tanker market which we believe has very positive fundamentals going forward. Nine of the 13 vessels come with the fixed rate charters with a weighted average time charter rate of over $20,000 per day reinforcing our tactical fleet management strategy of securing fixed rate coverage which provides stability to Teekay Tankers dividend during this period of weak tanker markets.

The additional time charter coverage will increase Teekay Tankers fixed rate coverage from 29% to 43% for the 12-month period commencing July 1, 2012. Furthermore the three year non-compete agreement with Teekay Corporation ensures our interest to our alliance and that we will work together to grow Teekay Tankers in a creative way.

Under the agreement Teekay Tankers will have a first rate of refusal on any new conventional tanker opportunities developed by Teekay for the non-compete period. We believe this transaction is a good use of the equity capital we raised this past February and has some several strategic benefits for Teekay Tankers.

First the transaction provides Teekay Tankers with good value as we are able to acquire a quality fleet of modern vessels at a cyclically low purchase price. Second, the time charter contracts that come with the large portion of the acquired fleet enhances our fixed rate cover, just as we are about to Enter the seasonally low part of the year for the tanker cycle in the second and third quarters.

Third, the transaction provides Teekay Tankers with exposure to the product tanker market which I'll talk about more later on the call. Fourth, the debt facilities being acquired with the vessels have few covenants and favorable repayment profiles. Although our overall leverage will increase with the transaction, it is manageable, especially given the increase in fixed cover that I spoke of a few minutes ago.

In addition, the average interest rate on the facilities is relatively low. Finally the revolving credit facilities being assumed as part of the transaction will result in approximately 40 million of additional liquidity, increasing our total available liquidity to approximately 400 million. This provides us with further financial flexibility in a weak tanker market and provides a strong position to pursue future growth opportunities without requiring any further equity raises.

Turning to slide five, we provide an overview of Teekay Tankers pro forma fleet employment profile. With the vessels to be acquired shown as green bars with black labels while our existing fleet is shown as blue bars with blue labels. As you can see many of the acquired time charters provide coverage through 2012 and into 2013 locking revenue at a time when we expect further spot market weakness and volatility.

As a result of these additional fixed rate charters, Teekay Tankers fixed cover for the 12 months commencing July 1, 2012 is expected to increase from approximately 29% before the transaction to approximately 43% post transaction. In addition, our pro forma charter coverage is well aligned with our outlook for an improving spot tanker market during 2013 when we expect a better balance between tanker supply and demand growth fundamentals.

Upon closing of the transaction, Teekay Tankers fleet will consistent of 28 owned, on the water vessels with one 50% owned BLCC new building scheduled to be delivered in the second quarter of 2013. One other fleet related point to note based on the continuing weakness in the spot tanker market we took the decision in the first quarter to redeliver our time charter in Aframax tankers ((inaudible)). This will reduce Teekay's time charter hire expense as we come into the traditionally weak summer months.

On slide number six, we summarize our dividend calculation for the first quarter. As is the case every quarter, our cash dividend is based on the total cash available for distribution. After holding back reserves for debt principle payments and estimate dry dock expenses, these reserves ensure we can maintain an asset base that will allow us to continue paying dividends into the future.

Our declared Q1 cash dividend per share was based on total cash available for distribution generated in the quarter of 13.6 million less 2 million for scheduled dry docking and less 450,000 of debt principle payments in the quarter, divided by the weighted average share count of approximately 71 million shares following our February equity raise.

Upon close of the 13-vessel acquisition our reserves for scheduled dry dockings and debt principal payments will increase to 3.5 million and 4 million per quarter respectively on a run rate basis reflecting the larger post transaction fleet size and debt assumed with the acquired vessels.

These new run rate reserve amounts will take effect in the third quarter. On slide number seven we have provided our usual dividend matrix for the second quarter based on our current fleet employment profile. Bases on approximately 50% of days booked for the quarter Aframax and Suezmax spot rates are down from the first quarter to date averaging 9,500 per day and 19,500 per day respectively.

The decline in spot rates is reflective of the typical seasonal pattern in the spot tanker market where rates tend to soften in the Northern Hemisphere summer months as heating demand and weather related transit delay is reduced. Assuming a mid-June closing date for the 13-vessel acquisition the transaction will have a very minimal impact on the second quarter dividend.

However, with the expiring of some of our older and much and more lucrative time charters including the charters for the ((inaudible)) and Gangi Spirit which earned over $30,000 per day. The additional fixed rate revenues associated with the transaction with Teekay comes at a good time. The line graph at the bottom left shows the illustrative annualized cash dividend per share at various Aframax and Suezmax spot tanker rates for the next 12 months commencing July 1, 2012.

As you can see from the increase in absolute value and slope of the red line, Teekay Tankers pro forma dividend per share is expected to be higher than the pre-transaction level as indicated by the blue line for most spot rate scenarios. For reference the line graph at the bottom right shows the annualized cash available for distribution which increases by a greater amount for the same period illustrating the cash flow accretion of the transaction. The lower dividend accretion on the left reflects the more conservative debt principal and dry dock reserves which will enhance the sustainability of Teekay Tankers fleet going forward.

The expansion of our operating fleet from 15 to 28 vessels also provides us with a much strong operating footprint and significantly enhances our leverage to an eventual tanker market recovery. To quantify the potential upside for every $1,000 increase in spot tanker rates we expect to add 7-1/2 extra cents to our annual dividend.

Turning to slide eight, we are pleased to report improved spot tanker earnings during the first quarter in all of our three main tanker segments, Suezmax, Aframax, and coated Aframax, driven by several positive movements in tanker market fundamentals. First global oil production reached a record high of over 90 million barrels per day during the quarter resulting in a general increase in sea born cargos.

Second, the portion of the global production from OPEC countries grew by approximately 1 million barrels to reach a 3-1/2 year high of over 31 million barrels per day to make up for lower production in non-OPEC countries. The increase in OPEC oil production also contributed to increased ton-mile demand during the quarter as OPEC countries are generally located at longer voyage distances from major consumption centers in North America, Europe, and Asia.

Third, there was an increase in crude oil imports into Asia to build strategic reserves stockpiles as a precaution against potential Iranian supply disruptions. Fourth, as is typical in the first quarter, seasonal factors such as weather and transit delays led to periodic support for spot tanker rates. In addition there was an increase in tanker scrapping in the first quarter to 4.6 million dead weight tons compared to 9.8 million dead weight tons in all of 2011 which helped to dampen fleet supply growth.

You can find a more detailed assessment of the first quarter tanker market on our Web site. However the strengthening tanker market fundamentals in the first quarter resulted in our spot Suezmax rates averaging approximately $25,000 per day for the first time in nearly two years. Turning to slide nine, we look ahead to the crude tanker market outlook for the rest of 20121 and into 2013. In the first quarter of 2012 OPEC crude oil production averaged 1.3 million barrels per day higher than the first quarter of 2011.

Going forward the IEA expects the call on OPEC crude to dip in the second and third quarters due to normal seasonal factors such as refinery maintenance before rebounding in the fourth quarter. Higher OPEC production couple with longer haul oil movements particularly from the Atlantic Basin to Asia should continue to have a positive impact on tanker ton mile demand. At the same time during the first four months of 2012, approximately 30 large oil tankers of Aframax size and larger have been sold for scrap.

The same level as what was scrapped in all of 2009. Given the weak tanker market over the past few years, the trend of vessels being scrapped at a younger age has accelerated due to increased trading discrimination for older vessels and the inability to recoup dry dock costs at today's low tanker rates.

With several first generation double hull tankers still in the fleet, and scrap steel prices remaining relatively high, we expect the recent pace of tanker scrapping to continue and provide a dampening effect on the strong fleet supply growth that has prevented any sustainable improvement in spot tanker rates over the past 18 months.

The accelerated pace of scrapping of the first generation double hull tankers is a new positive factor and when coupled with the growth in tanker ton-mile demand are positive signs that the tanker market is on track for a recovery in 2013. Turning to slide 10, with our pending purchase of six product tankers from Teekay Corporation including three coated long haul Aframax size or LR2 product tankers we are pleased to have added exposure to the product tanker market.

Over the next four years global refining capacity is expected to increase by approximately 8 million barrels per day with approximately 40% of this new capacity coming from export-oriented facilities in India and Middle East Gulf, a generally longer voyage distance from the main global consumption destinations. With the Aframax size product tanker fleet set to grow, at only a modest pace over the next few years approximately 10 vessels in 2012 and five vessels in 2013 the fundamentals in the product tanker trade are attractive.

Before I move on, I wanted to take a moment to point out that our market analyst (Christian Waldegrave) provides an update video on the tanker markets each month which is available on our Web site and also on Teekay Corporation's Web site. This allows everyone to stay up to speed on the markets even between our quarterly earnings calls and I encourage everyone to check out (Christian)'s insightful reports, the latest of which was filmed on the bridge of Teekay Tanker's Nassau Spirit.

Turning to slide 11, following the transaction with Teekay Corporation Teekay Tankers will remain financially strong and well positioned for future growth including the $40 million of incremental undrawn credit lines that we will assume as part of the 13-vessel transaction. Teekay Tanker's total liquidity will increase to approximately 400 million leaving us in an even stronger position to pursue further accretive growth opportunities.

Teekay Tankers will continue to maintain a low cost of debt with an average all in interest rate including swaps of approximately 3.7% which is roughly the same level as before the acquisition. A low cost of debt means we will be able to preserve more of our operating cash flow for investors. Although our overall leverage will increased with our greater fleet size our quarterly debt principal payments at only $4 million per quarter will still be manageable and easily supported by our current strong fixed rate contract coverage.

Finally unlike many of our peers in the spot tanker space, we will continue to have no financial covenant concerns and as a result will retain considerable financial flexibility. Before we open the call up to questions I would like to turn your attention to slide 11 which provides some preliminary details on our 2012 investor day to be held during the afternoon of Monday June18, at the Waldorf Astoria in New York.

At this event we will provide a detailed presentation for the Teekay Group of companies covering our strategies, financial position, and market outlook for Teekay Tankers as well as Teekay Corporation, Teekay L&G Partners, and Teekay Offshore partners. The event will be a Webcast live for all interested or prospective investors. While this is several weeks off, we encourage everyone to mark their calendars and we look forward to presenting and meeting with you.

I am now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, please press star one on your touchtone phone. To withdraw your question press the pound sign. If you use a speakerphone, lift your handset before entering your request. We will pause for a moment to assemble the queue.

The first question comes from Jon Chappell of Evercore Partners. Please go ahead.

Jonathan Chappell: Thank you. Good morning, guys.

Male: Good morning, Jon.

Jonathan Chappell: Bruce you pointed out some of the broader industry reasons why some of the longer haul, bigger crude carriers did better in the first quarter than prior; however, your Suezmax spot fleet specifically did much better than the market and considerably better than some of your peers who have already reported in the Suezmax space. Can you speak to any changes that has happened either company specific or pool specific wise that could have driven the outperformance in your Suezmax fleet, both in the first quarter and quarter-to-date 2Q?

Bruce Chan: Right, well thanks Jonathan. For the Gemini pool as you know we've changed our partnership structure in that our pool partners are consisting of Konig and Diamond S. And the fleet of Suezmax is being operated in that pool now since the beginning of 2012.

It is much more modern, newer than it was in 2011. And that's contributed to a much stronger ability to earn rates and position the fleet more nimbly in the right markets. And so I think that's been reflected in our strong first quarter performance.

Jonathan Chappell: Has that helped with the deficiencies and bunkers as well from the cost point of view?

Bruce Chan: Absolutely. The newer fleet contributes on -- in multiple ways. It's better accepted to customers in terms of beddings, approvals, as well as fuel savings really come through in the newer ships because that just contributes with the high bunker prices to higher net realized earnings per day.

Jonathan Chappell: Now it seems that the Suezmax fleet in general has been doing you know better like we just talked about but the Aframax fleet has been struggling a little bit more both industry wide and your fleet specifically. Are there any kind of shifts going on within the mid-sized fleet that's making Suezmax perform significantly better than Afras?

Bruce Chan: Right well Suezmax this quarter has benefited from the longer haul movements to Asia as has the VLCC fleet. Those markets have moved well correlated and even just recently the increase in West African cargos has really improved the Suezmax market.

I think it was more of an anomaly you know in the medium to long-term we always see Aframax's, Suezmax's and VLCC's pretty correlated. Although obviously in the short-term there can be divergence.

And certain of the things that happened in the first quarter in terms of Iranian and more Chinese development, in terms of strategic growth in their inventories has lended more itself towards Suezmax's and VLCC's.

But going forward, we see developments in Aframax's. We've seen strong movements in the Gulf at certain periods with the (Cosmeno) coming online and the new (Islooga) pipeline both are -- tend to be towards the smaller Afra or Suezmax size ships.

So again I think the demand fundamentals for Aframax's going forward still remains strong.

Jonathan Chappell: Okay, got it. And then just the timing and targets of your liquidity obviously you're absorbing you know 13 ships, almost doubling your fleet in the near term. However that happens to be in a period that you think is going to be pretty weak and may potentially offer the best opportunities. How are you thinking about the timing of the deployment of the liquidity that you have right now and then also as you've dipped your toe into the product tanker segment which segments do you see yourselves kind of focusing on going forward with any additional growth?

Bruce Chan: Right, to your first question of deployment liquidity I think the benefit of the Teekay Corporation acquisition has provided with the time charter coverage to sustain us through the low market.

I think growth will depend on what type of growth it is or how to deploy that liquidity. If it comes with some fixed rate cover or delayed start then you know you get further -- the new assets would deliver further into a potential market recovery.

Obviously spot assets taken in the low point look bad initially. But sometimes those are the types of investments that pay off the most in the long-run. In terms of the product tanker space we see that the fundamentals overall are positive.

I think that situation is evolving. You see we do believe there will be a longer haul product tanker trade evolving as the Middle East and Indian refineries will -- products will start coming on to lines and those -- that would create longer haul ton-mile demand. But also the MRs are still a staple of that sector, kind of the Aframax of the product tanker segment. And the parcel sizes are favored by traders.

And so you know that situation will probably evolve over time to see how those ship sizes favor. But overall that whole segment will probably -- will benefit from the improved product tanker fundamentals.

Jonathan Chappell: Okay just one last quick one for Vince. The G&A run rate post transaction what should we be looking at there and then also was there any kind of transactional costs that we should assume that would make the second quarter G&A run rate higher than the first?

Vince Lok: Yes in the second quarter given that we're expecting to close sort of middle way through June it won't have a material impact on the second quarter. However, there are some transaction costs -- one time transaction costs of about $750,000 and that's built into our dividend table for the second quarter. And we've added a note below that. Going forward on a run rate basis I think the G&A will -- it won't go up in the linear fashion necessarily because we'll get some economies in scale.

I think as a rough guideline if you use the current per ship day run rate I think building in some economies of scale you should probably see that maybe sort of go up about 70 to 75% of the current run rate for the new '13 ships.

Jonathan Chappell: Okay, great. Makes sense, thanks Bruce.

Bruce Chan: Thank you.

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

(Josh): Hey, good morning. It's (Josh) on for Justin.

Bruce Chan: Hi, (Josh).

(Josh): Hey, just wanted to quickly get a modeling question out of the way. In your dividend calculation are you assuming a June 15 close?

Bruce Chan: Yes, we are for the second quarter. That's right.

(Josh): Okay. So that's been put in there. I guess just broadly in the product tanker market you know Teekay has a big presence in the LR2 space, not so much in the MRs. Is this -- I guess does this impact your thinking about whether to re-deploy I guess some of the MRs in 2013 in this spot versus time charter market or is that going to maybe lead into decisions increase your presence in that sector?

Bruce Chan: You know I think the MR market is -- has very good positive fundamentals going forward and the benefit of having those charters expire into that gives us that optionalty of either renewing into a higher market or putting -- trading those ships spot depending on the outlook at the time.

So that does give -- that gives us some time to see how that market develops. And you're right in terms of the LR2 ships those are trading spot in Teekay's Taurus LR2 pool and that gives us the scale by trading in that pool of having around 20 ships on the water. And, and so we benefit from the developing nature of that market as well.

(Josh): Okay, could we see the development of a Teekay MR pool or a partnership within existing pool operator?

Bruce Chan: Right now, it's on, those are on TC. We haven't had, looked at developing our own spot trading pool. We don't have the size or the scale. That market just on a number of ships basis that we control versus the number of ships out there that we, we just don't have the scale right now to create that type of spot trading pool. But we're primarily, just, because we have the benefit of having them on time charter right now we have the luxury of time to see what, what develops there.

(Josh): Understood. I guess now with the potential for these East Coast refineries thing online, did that really impact you long term thesis on product tankers or even maybe a shorter term outlook on this sector?

Bruce Chan: It, it's clearly evolving you're right. The refinery is not shutting down is, has been an issue in the short term obviously for that story developing. It clearly benefits Suezmax, 30 Suezmaxes and Aframaxes. So we win on that side but in the long run in the medium to long run the refineries in India and the Middle East are coming online and that product is going to have to move somewhere. And so whether, and so whether that, when those products come online it's going to be a scale advantage to move them on, on the bigger ships.

So whether it goes to the U.S. East Coast or elsewhere those refineries in India and the Middle East are going to benefit if they move them on larger ships. ((Inaudible)).

(Josh): And maybe switch, switching over to the S&P market, I guess Teekay Tankers just took down big, big transaction but for the most part it's operationally it's a paper transaction because Teekay already manages the ships. So, I guess how should we think about kind of new acquisitions and you know how the third party market is really shaping up right now? It, are, I guess we haven't seen very much transactions. What are seeing out there and is it, and is it kind of maybe more ships being put available in crude or the product size?

Bruce Chan: Yes, there's, you're right. There is not a lot of third, you know non-ships out there that are being transacted in the second hand market. We see the liquidity for modern ships is, is down and that's why the ability of having the sponsor at this time is good. going forward, you know as you can see with the Gemini pool results, fuel efficiency is very important and an ability to earn, an ability to earn money and so that's, that's something that we would look at over you know when you look at second hand ships you have to be really discriminating on, on which ships.

And I guess the real benefit of this transaction and the liquidity is having the money when others don't in this market. And so that adds the ability to be a little bit picky or flexible and choosing great opportunities to add exposure whether that's through some of the in charters that we have done in the past with options or select second hand purchases that have good fuel consumption. Or new design ships that have very good fuel consumption. So those are some of the ways that we look at it.

And the last point about the liquidity is that again we have the ability to spend the cash without needing to raise equity at this point. So, it gives us a lot of fire power to add to the dividend.

(Josh): Got it. I appreciate it (Tom). Thanks.

Bruce Chan: Thanks (Josh).

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

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

Bruce Chan: Good morning.

Michael Webber: Hey one model in question I guess before I hop into some longer term questions and forgive me if you mentioned this earlier and I just missed it, what's the plan for the bell. I know you guys have either a series of options on the charter end and it's not showing up in your fleet, fleet tab. I believe it rolls off in June. Should we just assume that's not going to be renewed?

Bruce Chan: Yes, that is I mean we have optional extension periods for, for that ship. But as they roll off in the summer, which is the traditionally weaker markets, it's an opportunity to, to potentially renew and extend options even further into the recovery market. But you have to weigh off that cost versus potentially you know depending on the rate at the time too, and the market outlook, so.

Michael Webber: All right they shouldn't read into the fact that it's not in your fleet deployment, fleet deployment tab?

Bruce Chan: No, I don't, I think that might have just been the way the graph showed up as ((inaudible)).

Michael Webber: Okay, all right, fair enough, fair enough. I guess (Ed) this has already been parsed over a couple times but I'll try to maybe come at it a different way and just from a, the pure long term perspective, and you kind of exclude kind of the zombie East Coast refineries, when you look at the makeup of your fleet and, and that increase in kind of inland U.S. crude production kind of fewer cargos heading west and the incremental barrels heading east, you know do you think about adding VLCC exposure to the T&K fleet?

Is there one area where you're a little bit light across the, across the asset spectrum and, and certainly it seems like from a dynamics perspective, it would hedge the fleet a little bit, maybe a little bit of color there would be helpful.

Bruce Chan: No, and we have one VLCC as you know Mike on order with the charter. So it's a little bit of a start. And we, so it, it is, I mean our longer term theses is that Aframaxes and Suezmaxes and VLCCs have been correlated and, and there is as we've seen this recent quarter the Suezmaxes have done us you know very well in that longer haul movement. And, and so in terms of longer haul movement we also have the benefit which we really like which is Aframaxes and coated Aframaxes.

That gives us that optionality of trading in the crude markets when they improve but as if longer haul products trades develop, then we can trade in that. So having an asset that has the ability to benefit from both crude and clean dynamics we feel is a benefit whereas VLCCs while they do have a good fundamentals in terms of that longer haul, has just that one, one market to play off of as opposed to the flexibility of that Aframaxes.

Michael Webber: Sure. Okay, that's fair. And kind of staying I guess this is technically VLCC exposure but, the two mortgages you guys have in your fleet, can you remind us on the payment structure there and whether there's any sort of backload of payment associated with those and I know it's getting a little bit ahead of ourselves but have there been any, any talk around maybe I guess refi-ing those from your cusMaleer's end, maybe? How should we think about those long term?

Male: Yes, those, those loans they do have a, a repayment premium of 3% upon maturity middle of next year. So that's what gives us the extra one% per annum yield from 9% to 10 percent. Right now, they're, we still have some time before they expire.

Michael Webber: Yes.

Bruce Chan: So we don't currently have any discussions with them about refinancing or rolling over yet.

Michael Webber: So they're just performing loans and you haven't had any discussions about refi-ing those at all?

Bruce Chan: No, they've been performing very well.

Michael Webber: Is it something you guys are open to re, refi-ing at some point. Or I guess I'm kind of coming at it in a different way in terms of allocating that capital. Any preference to move that back into steel?

Bruce Chan: You know it's -- we haven't really -- it's a year off. We've …

(Mike): Yes.

Bruce Chan: We haven't really looked at it. They haven't approached us. It is you know on a risk adjusted return basis it's pretty good. So and with our liquidity it's not the last dollar that we're investing. I think if it was the very end then maybe we'd have a more serious thought between it, but we'll -- we can -- we'll have a better assessment at the time.

(Mike): Sure, fair enough. And just one more for me and then I'll turn it over. You mentioned you were going through your debt profile on a previous answer. Can you just remind us on the swap roll off schedule you guys are looking at right now?

Bruce Chan: Swap roll off.

Vince Lok: Oh yes we've got a couple of short term swaps related to the VLCC loans. So those roll off over the next year and then we have the existing $100 million swap. That's the long-term swap that's got probably another five or six years left and then the new $200 million swap which is part of the 13 ship dropdown that goes out to 2016.

So good -- we've got some partial coverage at pretty good swap rates.

(Mike): Got you. Vince, do you happen to have the notional value on the swaps that roll over in the next year under these?

Vince Lok: One of them is about 70 million and the other one is 45 million.

(Mike): Okay, all right. That's helpful. Great, that's all I've got guys. Thanks for the time.

Bruce Chan: Thank you, (Mike).

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star one at this time. The next question comes from Christopher Combe of JP Morgan. Please go ahead.

Christopher Combe: Yes, hi, good morning. Most of my questions have been answered I just want to ask a follow-up on your comment about Asian stockpiling. Can you give us the color --some color as to the split between the strategic reserve buildup in China versus the Iranian effects and with regard to the SPR has that been relatively consistent flow and what do you expect going forward?

Will you anticipate a more erratic trade pattern or is there any visibility whatsoever?

Bruce Chan: You know the Chinese strategic petroleum reserve their information flow is pretty lacking. It's pretty difficult -- there's different views on how much of that is for inventories versus how much they're actually using.

I mean there's certainly inventory building because we know that they're just not using as much as they're importing. But in terms of the actual amounts I don't know if we have any really good data on that.

Your second question, I'm sorry was it on the Iranian -- the effects of the Iranian?

Christopher Combe: Sort of the split between the two factors and if it's predominantly general stockpiling versus specifically the Chinese SPR?

Bruce Chan: I think it's you know it's been -- well I think there's a bunch of factors there. One, they're still reporting normal production and yet you know it's pretty hard to imagine that it's not being affected because of the potential sanctions.

We have seen a reduction in Chinese purchases of Iranian crude and so there's just going to be less production there and also, therefore, by definition less of the SPR filling. And I you know we're also seeing more Iranian floating storage as a result of them maybe being not able to sell that oil into the market and Saudi Arabian increases in production to cover some of that reduce production, so it's really hard to determine the mix between the two.

Christopher Combe: Okay, fair enough. And just one last follow-up your comment about the trend of younger average age for scrap on a single hole. Is there a consistent sort of newer threshold now in terms of a specific age where you see consistency in terms of more recent scrapping activity?

Bruce Chan: You know the traditional age of the past 20 years has been being brought back further and further but to like the 17-1/2 or 15-year age. The real key benchmarks that determine scrapping is the cost of the dry dock or special survey at the time. And what is the precursor to that even is the maintenance and quality of the ship in the years preceding those dry dockings.

And so if the maintenance has been good those dry dockings might not be as high and then the ship owner can afford to do the docking and try to recoup that cost through until the next docking. But if that docking is very high because of poor maintenance track record leading up to that then that cost of the docking becomes prohibitive in terms of the chances of being able to recoup it over the next few years until the next docking.

And so we've seen the age move forward just because of the poor rates and people experiencing higher docking costs and not being able to make an investment thesis that justifies doing the docking.

Christopher Combe: Okay, thank you.

Bruce Chan: Thank you.

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

Bruce Chan: Well thank you everyone. We look forward to seeing you at Investor Day.

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

END