TEEKAY TANKERS LTD

Moderator: Emily Yee
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12:00 pm CT

Operator: Welcome to Teekay Tankers Limited First Quarter 2014 Earnings Results 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 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 Ltd Chief Executive Officer. Please go ahead sir.

(Ryan): Before Mr. Chan begins I'd like to direct all participants to our Website at www.teekaytankers.com were you'll find a copy of the First Quarter 2014 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 2014 Earnings Release and Earnings Presentation available on our Website.

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 Vincent Lok, Teekay Tankers Chief Financial Officer and Brian Fortier, Group Controller of Teekay Corporation.

During today's call I will be taking you through Teekay Tanker's First Quarter 2014 Earnings Results Presentation which can be found on our Website.

Beginning with our recent highlights on slide 3 of the presentation, Teekay Tankers generated adjusted net income of 20 cents per share in the first quarter; compared to an adjusted net loss of three cents per share in the fourth quarter; and an adjusted net loss of four cents per share in the first quarter of 2013.

Cash available for distribution or CAD was 36 cents per share in the first quarter, up from 10 cents per share in the first quarter of 2013; which demonstrates the company's tremendous operating leverage to our recovering spot tanker market.

These increases were primarily due to stronger Suezmax, Aframax and MR spot tanker rates earned in the first quarter and an increase in interest income recognized on our term loan investments secured by two modern VLCC's.

In accordance with our current fixed dividend policy the company declared a first quarter dividend of three cents per share. This was Teekay Tanker's 26th consecutive quarterly dividend; which was paid on April 30 to all share-holders of record as of April 17.

Since inception Teekay Tankers has paid a total of $7.33 per share in dividends. Teekay Tanker's dividend is current fixed at an annual level of 12 cents per share payable quarterly.

As a result of the strong winter market rally in the first quarter Teekay Tankers achieved its highest quarterly spot earnings since 2010. With our spot Suezmax tankers averaging $28,100 per day and our Aframax tankers averaging $22,600 per day.

In late March Teekay Tankers took over full ownership of two - 2010 belt very large crude carriers or VLCC's that previously secured our investment and term loans that were in default. Subsequently in early May we sold these vessels to Tanker Investments Limited for a combined purchase price of $154 million.

Recently Teekay Tankers agreed to acquire a 50% joint-venture interest in Teekay's conventional tanker commercial and technical management operations for $15.6 million. These operations currently commercially manage a fleet of 89 vessels and technically manage a fleet of 51 vessels.

In January 2014 Teekay Tankers co-created and invested $25 million in Tanker Investments Limited or TIL, matching a $25 million investment by TK Corporations.

And in late March TIL completed its initial public offering on the Oslo Stock Exchange. At IPO the value of TIL's shares had appreciated by approximately 15% from Teekay Tanker's initial investment price. And we see the potential for further growth as the target market recovers.

Turning to slide 4 I will provide an update on Teekay Tankers $115 million term loan investments. Secured by two 2010 VLCC's. As I noted in m opening remarks in late March Teekay Tankers exercised its rights as first priority mortgagee and assumed ownership of the two vessels through a mortgagee and possession process.

At the time Teekay Tankers took over ownership the vessels has a (fair) value of approximately $144 million; which exceeded the carrying value of the loans. And as a result for the first quarter of 2014 the company recognized $9.1 million of interest income owing under the loans.

In early May we sold these vessels to TIL for $154 million and used the proceeds to repay a portion of our revolving credit facility; which reduced our overall leveraged. Based on the selling prices of the vessels and interest income received net of cost incurred, Teekay Tankers earned a 12% annual return on this investment since its inception in July 2010.

The final annualized return on his investment exceeded our expected return of 10% per annum and provided additional interest revenue for Teekay Tankers during a cyclically low tanker market.

Turning to slide 5. In April Teekay Tankers agreed to acquire a 50% interest in a new joint venture which will own Teekay Corporation's conventional tanker, commercial and technical management operations; or as we're calling it - Teekay Operations.

For its 50% interest Teekay Tankers will pay Teekay Corporation $15.6 million in the form of new common shares at an agreed upon price of $3.70 per share. Commercial Management Operations include a 33% interest in the Gemini Suezmax pool and a 100% interest in the Aframax Revenue Sharing Agreement and (Torex LR2) pool.

In total Teekay Operations currently provides Commercial Management Services for a fleet of 89 vessels. Technical Management Operations will be provided through Teekay Marine Limited which is currently 51% owned by Teekay Corporation and currently provides Technical Management Services to a fleet of 51 vessels.

While Teekay Corporation will retain a portion of its legacy ownership and provide strong sponsorship, the day-to-day management of these operations will effectively be provided by Teekay Tankers. We believe this provides us with greater control in the decision making process relating to the operations of our conventional tanker fleet.

Once the transaction closes we expect to generate approximately $2.5 million in additional annualized equity income based on a commission fee of 1.25% on gross freight revenue and a daily management fee for commercial and technical management.

As the number of vessels under management grows either through Teekay entities and TIL; which have a contractual obligation to use Teekay Operations, or via new arrangements with third party ship owners both Teekay Tankers and Teekay Corporation can expect to earn even greater fee revenue and will be even better positioned to benefit from a recovery in the spot tanker market.

Overall this accretive acquisition is strategically important as it is the last step in Teekay Tankers' evolution into a full-service conventional tanker platform; which we believe will allow us to better serve our customers and generate greater value for our shareholders.

On slide 6 we provide an update on Teekay Tankers fleet employment mix and fixed rate coverage; including Teekay Tankers current fleet of 28 owned vessels and one time-chartered in Aframax. Commencing in the third quarter of 2014 we have also agreed to in-charter one additional Aframax tanker; bringing the total number of vessels in our directly owned and in-chartered fleet to 30.

As of May 1, 2014 - 13 of the vessels - including our 50% owned VLCC are trading under fixed rate time charter-out contracts. The remaining 16 vessels in our current fleet are operating in the spot market through Teekay managed commercial tonnage pools with the exception of two of our MR product takers which are trading in an externally managed pool.

The significant improvement to Teekay Tankers earnings and cash flow in the first quarter demonstrates the benefit of our operating leverage in a recovering tanker market. During the cyclically low tanker market of the past several years Teekay Tankers maintained a fixed rate coverage between 40 and 50% which protected earnings from market downside.

Now looking forward over the next 12 months we anticipate that a greater portion of our fleet will begin trading in the spot tanker market as current time-charters expire. Our decision to let our fixed rate coverage to reduce to approximately 34% between 2/2/14 and Q1 '15 reflects our belief in the improving tanker market fundamentals. And the need to ensure our fleet can further benefit from an expected improvement in spot tanker rates.

Over the coming months we expect to increase Teekay Tankers operating leverage further by acquiring and in-chartering additional on-the-water vessels in our core mid-size crude and product tanker segments. Through these strategic initiatives we expect to increase our potential up-side and capture greater value for our shareholders when the spot tanker market improves.

Turning to slide 7 we take a look at developments in the crude tanker spot-market. As shown in the two charts on the slide, the five-year high spike in rates at the start of the first quarter increased average global spot rates for Aframax and Suezmax tankers to approximately $28,000 per day and $31,000 per day respectively; with earnings on certain routes exceeding $100,000 per day during the rally early in the quarter.

On average spot rates were the highest achieved for Aframax's and Suezmax's since the fourth quarter of 2008 and the second quarter of 2010 respectively.

The strong first quarter rates were due to a combination of positive tanker market fundamentals and seasonal factors, especially during January and February. As well as Chinese strategic stock-piling that brought January Chinese imports to a record high of 6.6 million barrels per day. Specifically Asian imports of African crudes increased over the quarter as buyers took advantage of volume benchmarked off cheaper priced (Brent) compared to Dubai.

By the end of the first quarter rates began to drop off with the commencement of seasonal refinery maintenance and winter weather delays in the North Sea, Black Sea and U.S. Gulf began to subside. Chinese crude oil imports also dropped to 5.6 million barrels per day in March with the conclusion of stock-piling activities.

In April however Chinese crude imports reached a new record of 6.8 million barrels per day due to seasonal demand factors and the start of a second phase of strategic stock-piling.

Overall rates in the first quarter of 2014 averaged significantly higher than the first quarter of 2013 and have continued to be relatively strong into the second quarter due to a combination of Chinese demand, the completion of maintenance on certain refineries and tightening fleet fundamentals.

Turning to slide 8 we look at the crude shipping market outlook for the second and third quarters of 2014. As illustrated in the chart on the slide global refinery throughput is expected to dip in the second quarter due to seasonal refinery maintenance in the Atlantic Basin and in the Pacific.

U.S. refinery maintenance peaked in March while Asian refinery maintenance is expected to continue through to the end of June. Throughputs are set to average 75.9 million barrels per day in the second quarter, down from 76.4 million barrels per day in the first quarter but up 0.9 million barrels per day year-on-year due to higher runs in the U.S., Russia and the Middle East.

By the beginning of the third quarter throughput is expected to reach 78 million barrels per day as the maintenance period concludes.

Compared to the same period in 2013 spot tanker rates are expected to be higher in the second and third quarters as a result of higher refinery runs as they come out of seasonal maintenance, new refinery capacities coming online in the Middle East and Asia and the further expected tightening of supply-demand fundamentals.

Some wildcard factors including the Russia/Ukraine crisis, the potential increase in volumes from Libya and Iran and the second phase of Chinese strategic stock-piling could have an impact on tanker demand. For example if Russian volumes are disrupted there could be an increase in tanker ton-mile demand as Europe turns further afield for crude volumes.

While the situation in Libya remains unstable there’s also potential for an increase in Mediterranean Aframax demand should the geopolitical tensions ease enough to open all ports.

Finally the second phase of Chinese crude stock-piling began in April and could have the potential to offset seasonal weakness in tanker demand.

Turning to slide 9, I will review the outlook for the mid-size conventional fleet supply. As you can see from the graphs on this slide fleet growth in both the Suezmax and the Aframax segments is currently negative and the size of these fleets is expected to shrink between 2014 and 2016.

In the Aframax segment the uncoded fleet is expected to shrink by approximately 7% from 2014 through the end of 2016 as scrapping of early to mid-90's built tonnage is expected to outweigh the modest delivery schedule during this period. I will point out that the graph at the top right of the slide combined coded and uncoded Aframax vessels and illustrates that even if owners choose to trade crude on their LR2's there is still very little fleet growth.

Overall the total Aframax size fleet including uncoded and coded vessels is expected to shrink by 1.7% in 2014 and grow by only 1.3% in 2015.

The Suezmax fleet is not expected to have any fleet growth in 2014 and less than1% of growth in 2015. We expect very few deliveries will be added to this forecast out to 2016 as most major shipyards are booked out to 2016.

The shrinking mid-size fleet is expected to be a main contributing factor to an expected recovery in spot tanker rates.

Slide 10 which shows our forecast for tanker fleet utilization for 2014 and 2015 reflects the improving outlook in the spot tanker market. In the chart on this slide the dark blue bars show tanker demand growth, with forecast growth for 2014 and 2015.

And the red bars show tanker fleet growth. The green line shows tanker fleet utilization which is simply tanker demand divided by tanker supply. As you can see from the chart tanker fleet utilization has been in the low 80% range since 2011; which has coincided with a period of very low tanker rates.

It is our view that 2013 will prove to be the trough of the latest market cycle and utilization is set to improve from 2014 onwards as demand begins to outweigh supply. For 2014 we are forecasting the tanker fleet to grow by just over 1% which is the lowest level of fleet growth since 2001.

With tanker demand growth expected to reach approximately 3% in 2014 the net overall fleet utilization for 2014 is forecast to increase by approximately 2%. For 2015 the trend is similar with fleet growth again expected to come in at just under 2% while demand growth remains steady at 3%.

This means that over the next two years we expect tanker fleet utilization to return to the mid-80% range or higher; which in turn should mean an improvement in spot tanker rates compared to the very low levels seen in recent years.

In summary based on our view of the fundamentals we believe the tanker market is at a turning point with a tighter supply and demand balance supporting higher fleet utilization and providing the basis for a sustained tanker market recovery in the coming months and years.

I would like to remind investors as well that our Head of Research, Christian Waldegrave, posts a regular monthly tanker market updates on our Website.

On slide 11, I will provide an update on spot earnings for the second quarter-to-date. Compared to average rates for the second quarter of 2013 realized Suezmax, Aframax and LR2 rates for the second quarter of 2014 to date have been significantly higher.

Based on approximately 55% of spot revenue days booked, our second quarter-to-date Suezmax bookings have averaged approximately $17,200 per day. Up significantly from $12,150 per day in the second quarter of 2013. And our second quarter-to-date Aframax bookings have averaged approximately $15,800 per day; up from $12,400 per day in the second quarter of 2013.

Based on approximately 70% of spot revenue days booked our second quarter-to-date LR2 bookings have averaged approximately $14,000 per day; up from $12,800 per day in the second quarter of 2013.

Prior to taking questions I want to wrap up by saying that while haven't named my successor yet we expect one to be named prior to next quarter's earnings call. And therefore this is most likely my last quarterly investor call as CEO of TNK. TNK has weathered the tanker market downturn of the past few years better than most of our peers.

And I'm pleased that the one thing I don't have on my Teekay resume is Chapter 11 experience. I believe that TNK is very well positioned to benefit from a recovery in the spot tanker markets. And as I will be a continuing TNK shareholder past my departure date I will be rooting for a strong tanker market recovery that translates into significant value to TNK shareholders.

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 1 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 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'll pause for just a moment to allow everyone the opportunity to signal for questions.

The first question comes from (Donald McLee) of Wells Fargo. Please go ahead.

(Donald McLee): Good afternoon guys.

Bruce Chan: Good afternoon.

(Donald McLee): It looks like (Ford) fundamentals are pretty attractive giving the shrinking mid-size fleet and the firm rate backdrop. I just wanted to know how that affects your approach to growth over the next year or two.

Bruce Chan: Yes I mean I think that those fundamentals are at points where it's us wanting to increase our exposure to that market. And we're naturally doing that as our fixed rate portfolio declines. And having the ability now of having sold the VLCC's to have additional financial liquidity to grow is something that we'll be looking at doing.

(Donald McLee): And will there be a particular focus on maybe Suezmax versus Aframax or it's kind of either way?

Bruce Chan: I think the latter - either way. It depends on quality of the ship and availability and the right price.

(Donald McLee): And also kind of does that improving backdrop affect is growth coming directly at TNK or TIL?

Bruce Chan: It will come through both ways being a co-investor in TIL as well as direct growth at TNK.

(Donald McLee): Got it. And then just kind of talking about how rates moved during Q1, could you speak a bit about how much I guess of that upside was due to tightening fundamentals and how much of that was of a seasonal nature.

Bruce Chan: It's a combination of both. It's very hard to pinpoint which of those two is the main catalyst. It's obviously a combination of that. But I think the fact that rates were higher in Q1 is a sign that the supply-demand balance is close and therefore when the fundamentals do tip towards being short of ship supplies the rates do have these potentials to go to high levels.

(Donald McLee): Got you. And then just one quick question on your Q2 spot earnings guidance. I don't think you guys gave any guidance for MR spot rates?

Bruce Chan: That is correct. Year-to-date so far, I'm just looking at it right now. It is about 14,000 - 13-1/2, 14,000.

(Donald McLee): All right got it. Thanks guys that's all my questions.

Bruce Chan: Thank you.

Operator: Thank you. The next question comes from Jonathan Chappell of Evercore. Please go ahead.

Jonathan Chappell: Thank you. Good morning Bruce.

Bruce Chan: Hey Jonathan, how are you doing?

Jonathan Chappell: Pretty good. I wanted to ask you about the TK Operations joint venture. Maybe this is just my misunderstanding but I thought when the TIL entity was announced that TNK would be taking the entire management structure from TK Corp. - was I incorrect with that? And if I wasn't kind of what led the decision to just do the 50/50 split? Was it TK didn't want to let go of the whole thing? Or was it TNK wasn't prepared to take on the entire management structure?

Bruce Chan: Well I think the day-to-day management control part of it from TNK is achieved and at a way that still shows long-term commitment from the parent especially through the fact that they're taking equity back. And achieves our goal of having that platform embedded at TNK without, you know, paying for the whole 100% up front.

So I think the goals are - at the end of the day we've achieved a structure that I think works well for both entities. And so that's the structure I think we landed up on.

Jonathan Chappell: All right. And then also maybe this is for Vincent. I just wanted to be clear on the accounting and the economics of the VLCC sale. So the $154 million roughly $115 million goes to the loans that were backing those ships which would leave about $39 million of excess. Is that all going to the revolver or are there, you know, other fees or stuff that I'm missing?

Vincent Lok: No the $154 million in proceeds pretty much all of that is going towards (retaining) the revolver. So you'll see that coming through the June 30 balance sheet.

Jonathan Chappell: Okay. So then when you look at - we'll call it fire power whatever - for acquisitions and Bruce talked the first time I've seen in a while about kind of gaining more market leverage through acquisitions or chartering and more tonnage. He mentioned $300 million of liquidity in the press release. How do you kind of see the total acquisition capability if you levered it say 50% conservatively; to actually add tonnage in the next 12 to 18 months?

Vincent Lok: Yes as you said we do have (proforma) about $300 million of liquidity through the revolvers. So that gives us quite a bit of near term capacity to act quickly on any on-the-water acquisition opportunities. I don't think we're going to - I don't think we should get in any specific guidance's to quantum or anything, but we certainly have the flexibility to act quickly as well as access to new capital.

Bruce Chan: And it gives us the balance sheet capacity to support increased leverage through - in charters as well.

Jonathan Chappell: Right. And then just finally when we think about the 2017 pretty big bullet payment. Obviously you've made a big step towards paying that down with the sale of these VLCC's, but how are you kind of thinking about potentially refinancing that facility? I know it's still a long way away but we're moving up in this part of the cycle versus, you know, using any new liquidity and cash flow well above what you're paying in the dividends towards expansion.

Bruce Chan: As you said that still is a long ways away. That revolver is due at the end of 2017 and I think given the, you know, some of the positive results that we've seen so far this year as well as the, you know, the sale of the VLCC's - that's all moving in the right direction in terms of helping (deliver) TK tankers and generating that cash flow so that we're in a much stronger financial position.

And so I think we're in pretty good shape there.

Jonathan Chappell: Okay. Thanks Vincent, thanks Bruce.

Bruce Chan: Thanks Jonathan.

Operator: Thank you. The next question comes from (Taylor Mullerin) of (Bridge) Bank. Please go ahead.

(Taylor Mullerin): Hi guys, how are you doing?

Bruce Chan: Hi (Taylor).

Vincent Lok: Good morning.

(Taylor Mullerin): So just wanted to start off with a quick one. I just wanted to make sure the interest recognition from the sale that - around 9-1/2 million from the VLCC's - there's none of that continuing on a go forward basis? That was just a Q1 specific event?

Bruce Chan: That's correct. That a Q1. It was 9.1 million.

(Taylor Mullerin): Yes, okay. Perfect, and then just wanted to dig a little bit into the tanker operations acquisition. So just on a sort of nuance question, can you help me understand where that fits into the income statement? Is it just like a revenue line? And then if you'll just talk a little bit more about - you alluded to this - but just sort of how you expect to grow that 2-1/2 million or so of annual income over time.

And then the last part of it was - this has come up in the past - but as far as TIL's relationship in the pool - when there's any sale or purchase activity at TIL would TNK now benefit from that; from its ownership in tanker operations? I know it's a lot of questions.

Bruce Chan: Maybe I'll just start with the first question about the income statement.

(Taylor Mullerin): Yes.

Bruce Chan: I guess first of all the - I think one of the benefits of the 50/50 joint venture structure that we've come up with between Teekay Corporation and TNK is first of all it strategically aligns both parties to grow that business. I think both parties are very much aligned. And the other benefit in a way it actually keeps that fee business in a - very clean on the financial statements.

So given that it's a 50% joint venture it will be equity accounted for and so the 2.5 million that we've provided here that would basically show up as equity income on the income statement.

So it should help keep the income statement fairly clean.

Vincent Lok: Taylor to your second and third questions around how we can benefit from the operations. The big component of those fees is the commission of 1.25% on gross freights. And so as the market - the guidance we give is based on the current tanker market rates but as we expect an improving market rate recovery those - the fees will increase as those rates get higher.

As well as additional ships which ties into your third question around TIL. As TIL stated goal or strategy is to increase and buy more ships to benefit from the tanker market asset improvement; so TIL is contractually obligated to use TK Operations to manage those ships. And so that will be additional income from managing those ships as well as hopefully an expanded income as the rates improve.

(Taylor Mullerin): Okay that makes sense. And I'll finish up with just one more sort of market question. So, you know, obviously Q2 has been fairly weak so far and you guys laid out your expectations for Q3. Just wanted to get a sense of basically what you thought the timeline - and I know this is kind of a moving target - but what you thought the timeline would be for more normalized rates sort of when you look back historically.

I mean you're obviously putting your money where your mouth is in terms of increasing spot exposure. So just wanted to get a sense of your sort of timeline for what you thought or when you thought improvement in the market might happen.

Bruce Chan: Yes a good way to look at it is on the utilizations slide where we kind of look at it going forward. Typically mid-80% utilization is what we call or consider kind of mid-cycle rates. Or, you know, where rates would be where they would kind of be at a 10 year average type rate level. And anything kind of in the higher 80's and low 90's is really into the really high cycle rate level and below that obviously is below cycle like we saw.

And so as you see the supplies and demand going forward and as you saw last year when the rates did kind of spike during the quarter that shows that that utilization number is moving up. And so based on that chart then it's in the next couple years you kind of get back to that mid-80% utilization level.

(Taylor Mullerin): Great makes sense. Okay thanks for your time guys.

Bruce Chan: Thank you.

Operator: Thank you. The next question comes from (Meesh Many) of JP Morgan. Please go ahead.

(Meesh Many): Hey good morning Bruce. I wanted to ask a quick question about the commercial operations transactions, see if I understand the financing correctly. But the roughly $15.5 million consideration - are there new shares going to be issued to fund that transaction? And if so is it kind of on the handle about when they're in shares?

Bruce Chan: That is correct. It's at $15.6 million divided by $3.70.

(Meesh Many): Okay got it. So there is going to be, you know, an initial share (off buy)?

Bruce Chan: Correct.

(Meesh Many): And then I kind of wanted to touch back on your guidance in kind of shifting towards the stock market, you know, and what you view s being a recovering market. Obviously, you know, we're looking at about 1/3 cover for the next 12 months.

I mean realistically how low would you be willing to go kind of in the medium term? I mean do you see yourself letting, you know, several of the charters that come up later this year expire and then go ((inaudible)) stock market? Or do you envision yourself kind of maintaining this roughly 1/3 cover?

Bruce Chan: No I can see those charters expiring and us not renewing them. I believe the market is going to be improving here and, you know, they do naturally run off through the year and into '15.

(Meesh Many): Yes so just eyeballing it it looks like you can get probably as low as probably 20% by the end of the year. That doesn't seem like it's out of sync with your thinking?

Bruce Chan: That's right. It could definitely get that low. And as well as you can see we have forward-starting in-charter which also exposes us to further leverage and that's a benefit because that in-charter doesn't start until later in the year where some of the seasonal period is already behind us. And so that's an opportunistic in-charter. And I think we'll be looking at doing more of those as well.

(Meesh Many): Okay great. And, you know, kind of taking back on what Jonathan had asked earlier in regards to growth opportunities and dry capital. I mean clearly you guys are in a position to grow given the cash infusion from the VLCC sale. But I kind of wanted to get you to help me think about what the growth strategy is at TIL versus TNK and how they kind of differ.

I mean I understand that TIL is kind of asset-value focused but are we likely to see the similar kind of transactions replicated at one vehicle versus the other over the next, you know, several months?

Bruce Chan: It certainly is complimentary - TIL's intended strategy is to buy assets below their historical average values and then wait till they increase and yield a gain. And TNK will benefit through its ownership of TIL and we can also participate in further equity raises if those happen at TIL.

But then aside from that in a complimentary strategy as we just discussed around the in-chartering and the rolling off of the existing ships. And as demonstrated now we already have significant off-rating leverage or exposure to a recovering market. And we will be looking to enhance that further. And that may be ships direct or further in-charters. So it's all complimentary around trying to create the most value as the market recovers for TNK shareholders.

(Meesh Many): Sure. Even though you know that it's complementary but in some sense it's also competitive right? Given even as we're speaking TIL and TNK could be bidding for the same assets in the open market, correct?

Bruce Chan: Theoretically there could be the same ships. But having - being part of the overall Teekay group we're certainly going to be not having bidding wars against ourselves if it came down to it. That would be destructive.

(Meesh Many): And then I just, you know, I guess, you know, again you did reiterated the asset value play for TIL. Does that imply that TIL will be kind of pursuing a more distressed kind of transaction? And TNK kind of that has a broader acquisition mandate?

Bruce Chan: I wouldn't say that's distressed but we're certainly looking at buying assets below the historical average and obviously if it's distressed that's a benefit. But we'll be looking at accumulating those types of assets.

They're not necessarily all sources focused around - like we have core operating segments where we add a lot of value to our customers since we're a full shipping platform. And that's why they bought the, you know, VLCC's because again they're in it looking for areas where it can have a lot of asset value appreciation.

(Meesh Many: Got it. And my final question. I know you guys you obviously sold the VLCC due to its kind of, you know, precarious nature and kind of, you know, odd situation. But that doesn't preclude you from going after VLCC's in the future right? Even though the Aframax, Suezmax and mid-segment has been your core focus?

Bruce Chan: Yes it doesn't preclude us from going after anything really although my view has always been and I think it's supported by a lot of analysts that those segments are largely core related and that cargos do move around between those segments on the peripheral when there is over demand of lack of supply in different areas.

And so those rates in the medium term tend to be quite correlated.

(Meesh Many): Yes. Okay. Got it. That's it for me guys. Thank you so much Bruce.

Operator: Thank you. Ladies and gentlemen if there are any additional questions please press Star 1 at this time.

The next question comes from (Harden Betheyea) of (HSB Capitol). Please go ahead.

(Harden Betheyea): Yes. I have a question regarding the (SCX) contract. If you have any updates on the status of that?

Bruce Chan: No that contract is no longer valid and we're proceeding towards arbitration for a claim against them for damages.

(Harden Betheyea): Is there any - is there a status or a timeline you could provide on your anticipated recovery or what's the current status of it?

Bruce Chan: No I can't speculate on that.

(Harden Betheyea): Okay thanks. That was it.

Bruce Chan: Thanks (Harden).

Operator: Thank you. Once again ladies and gentlemen if you do have a question please press Star 1 at this time.

There are no further questions at this time, please continue.

Bruce Chan: Okay thanks everyone for joining. I'll look forward to listening in next quarter.

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

END