TEEKAY TANKERS LTD.

Moderator: Emily Yee
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12:00 pm CT

Operator: Welcome to Teekay Tankers Ltd.'s Second Quarter 2015 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 zero 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. Kevin Mackay, Teekay Tankers Ltd.'s Chief Executive Officer. Please go ahead, sir.

(Ryan): Before Mr. Mackay begins, I would like to direct all participants to our Web site at www.teekay.com where you will find a copy of the Second Quarter 2015 Earnings presentation. Mr. Mackay 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 Second Quarter 2015 earnings release and earnings presentation available on our Web site.

I'll now turn the call over to Mr. Mackay to begin.

Kevin Mackay: Thank you (Ryan). Hello everyone and thank you very much for joining us today. With me here in Vancouver is Vince 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 Tankers' Second Quarter of 2015 earnings results presentation which can be found on our Web site.

Beginning with our recent highlights on Slide 3 of the presentation, Teekay Tankers reported adjusted net income of 35 cents per share in the second quarter, a substantial increase from the second quarter of 2014 adjusted net loss of 5 cents per share.

The improved results were primarily due to stronger Suezmax Aframax and LR2 spot tanker rates, combined with an increase in the number of spot tanker operating days as a result of five vessels acquired in February, and an increase in our in-charter portfolio.

We generated free cash flow of $58 million or 50 cents per share during the quarter, up from $9.2 million or 11 cents per share in the second quarter of 2014.

While Teekay Tankers earned strong free cash flow during the quarter, our results would have been even stronger in the absence of some non-recurring issues related to three vessels which have largely been rectified with the exception of one in-charter tanker which is not yet delivered due to vetting issues.

Yesterday we announced the acquisition of 12 modern Suezmax tankers at an attractive price of $662 million. I'll provide additional details on the strategic rationale and financial benefits of this transaction, as well as our view of the Suezmax tanker market later in this presentation.

In late July we also completed an acquisition of a ship-to-ship transfer business, SPT, Inc. from Teekay Corporation and IM Skaugen for $45.5 million. This transaction establishes TNK as a global player in the ship-to-ship transfer business.

Both acquisitions are fully financed and are expected to provide immediate accretion to Teekay Tankers earnings and free cash flow per share.

In the spot market, driven by strong supply and demand fundamentals, we have continued to benefit from current and seasonal trends in the third quarter of 2015 to date.

Turning to Slide 4, I'll discuss the key benefits of Teekay Tankers strategic acquisition of 12 Suezmax's from Principal Maritime. Foremost, the acquisition of this high quality, on the water fleet provides Teekay Tankers with increased operating leverage at a time in the tanker market cycle when positive market fundamentals support continued strength in spot tanker rates.

As you can see from the chart on the bottom right of the slide, the transaction has increased Teekay Tankers operating leverage from 52 cents per share of free cash flow to 60 cents per share of free cash flow for every $5000 per day increase in Aframax spot tanker rates.

Based on the $662 million unbought purchase price, the acquisition is expected to be accretive to Teekay Tankers earnings, free cash flow, and net asset value per share which we will discuss in more detail later in this presentation.

The acquisition also provides Teekay Tankers with the benefits of increased scale. The 12 acquired Suezmax's more than doubles Teekay Tankers own Suezmax fleet and positions TNK among the top three Suezmax owners in the world.

This significant increase in scale will allow us to further optimize our fleet efficiencies, enhance our service offering to both existing and new customers across more regions, and expand our presence in the evolving global Suezmax trade routes.

With a larger fleet we are better positioned to take advantage of the growing demand for Suezmax tankers resulting from greater long haul movements from the Atlantic to the Pacific Basin, as well as other niche interregional voyages.

Lastly, with a fleet age of 5-1/2 years, the acquisition of these modern vessels reduces the average age of Teekay Tankers fleet by 1.2 years.

Turning to Slide 5 I will spend a moment to discuss the changing dynamics of the Suezmax tanker trade which has and continues to undergo significant transformation.

In recent years the traditional Suezmax benchmark trade lane between West Africa and the U.S., represented by the gray arrow on our map, had decreased substantially as the U.S. requirement for light sweet crudes declined due to record high domestic crude production, particularly from shale.

Nigerian and Angolan production has however found new markets in Europe and Asia as buyers in those regions have sought to diversify their oil supply sources and look to take advantage of price and quality differences as well as mitigate potential supply disruptions due to geopolitical instability.

As a result there has been a substantial increase in Suezmax cargoes moving from the Atlantic to the Pacific Basin which is positive for ton/mile demand.

Loadings from the Caribbean Basin headed for Asia have also seen a marked increase of over 28% year-to-date in 2015 compared with 2013. With more vessels opening in the

East coinciding with increased exports in the Middle East OPEC countries battling for more market share, Suezmax's are now taking a larger share of AG volumes moving east to Asian destinations.

Between 2012 and 2014 Suezmax loadings form the Middle East increased by approximately 23% year-on-year and have increased by a further 16% in 2015, year-to-date with the majority of these cargoes headed to China and other Asian destinations.

In addition to these bulk trade routes we are increasingly seeing cargoes move on the Suezmax's from supply sources in Mexico and Ecuador to Korea, as well as from Brazil to the U.S. and Europe.

All of these dynamic changes in trade patterns are effectively stretching out the Suezmax fleet, increasing miles moved, and creating tightness in vessel supply.

The increase in vessel utilization coupled with moderate fleet growth which I will touch on in a moment, is combining to drive greater volatility and stronger spot rates for Suezmax tankers.

Turning to Slide 6 we'll look at developments in crude tanker fleet supply. Due to minimal removals from the global tanker fleet in the first part of 2015 we have lowered our 2015 scrapping forecast to reflect this reality that many owners have been deferring scrapping in order to take advantage of the current strong spot market.

However, even accounting for the delay in scrapping, overall global crude tanker and Suezmax fleet growth is still expected to remain low in 2015 at only 1%.

In 2016 we forecast fleet growth to increase to approximately 4% across the crude tanker fleet. And the Suezmax fleet growth is expected to grow by 3.6%. Although growth is expected to increase in 2016, levels are still well below the 5% average annual fleet growth experienced over the last decade.

While the outlook for 2017 is less certain since there is still room for more orders, we anticipate 2017 fleet growth in the crude tanker segment to remain moderate.

In addition, owners that have chosen to defer scrapping of older vessels in 2015 have more difficulty holding off on scrapping decisions in 2016 and ’17 with critical docking and significant CAPEX decisions needed for items such as ballast water treatment systems which could bring net fleet growth in these years even further below the five year average.

Turning to Slide 7 I will discuss our recent acquisition of the ship-to-ship transfer business.

In late July Teekay Tankers acquired SPT, Inc. which provides a full suite ship-to-ship transfer services in the oil, gas, and dry bulk industries from Teekay Corporation and IM Skaugen.

In addition to transfer services the business also provides the consultancy and terminal management for a wide range of customers. This acquisition which establishes Teekay Tankers as a global player in the ship-to-ship transfer business is expected to increase Teekay Tankers fee based revenue and overall fleet utilization.

This acquisition also creates an opportunity for Teekay Tankers to develop and enhance service offerings for our customers. It creates a greater level of customer engagement, not achievable in the standard spot chartering environment, and provides us with a vehicle to develop new customers, not typical to our standard Aframax voyage business which should help to bolster our overall customer development efforts.

Our involvement in ship-to-ship operations in the U.S. Gulf will also enhance our ability to optimize the scheduling of tonnage, thereby reducing idle time and increasing utilization.

In addition to benefitting our core tanker business, we believe that there is potential to gain significant market share in the global ship-to-ship transfer market. And we initially expect to generate between $10 million to $12 million cash flow from vessel operations or CFVO annually.

Turning to Slide 8, I will walk through the financing and expected accretion of our two recent acquisitions.

Financing of these acquisitions has already been arranged with total aggregate price of approximately $708 million, financed through a combination of a new debt facility of approximately $400 million arranged with four of our key lenders and expected to be completed by the end of August, 2015.

The issuance of approximately $223 million of new common shares, including $75.5 million to Teekay Tankers - sorry, Teekay Corporation; $50million to Principal Maritime, and $37.3 million through our continuous offering program completed during Q2.

And the remaining amount funded from Teekay Tankers existing liquidity which at June 30, 2015 was approximately $230 million.

As shown in the table at the bottom of this slide, these acquisitions are significantly accretive to Teekay Tankers key financial metrics, increasing pro forma, adjusted net income per share, and free cash flow per share by 22%.

Based on our prearranged financing, on a net debt to book capitalization basis, leverage is expected to remain at similar levels before and after the transaction while the increased operating leverage, to what we believe will be a continuing strong tanker market is expected to generate significant cash flows that can be used to further reduce our financial leverage.

Overall we believe these transactions will increase Teekay Tankers dividend capacity and create long-term value for shareholders.

Turning to Slide 9, I will discuss the counter-seasonal strength in the second quarter and the third quarter to date.

Spot rates in the second quarter were the highest second quarter rates in seven years. With the strength experienced in the first quarter year continuing into the second quarter due to ongoing positive tanker market fundamentals including low fleet growth, growing global oil demand, and an increase in long haul tanker movement.

Low global oil prices, record high OPEC output, further oil stockpiling, and delays in Singapore and the U.S. Gulf have recently provided further support to the crude tanker market with rates at the beginning of the third quarter remaining counter-seasonably strong.

Looking at the respective bar charts on this slide for the Suezmax and Aframax segments, based on approximately 39% and 46% of spot revenue days booked, Teekay Tankers third quarter to date, Suezmax and Aframax bookings have averaged approximately $40,500 and $39,400 per day respectively.

While for the LR2 segment with approximately 68% of spot revenue days booked, we have seen rates continue their upward momentum, averaging approximately $34,700 per day.

As the list rate in the appendix to the presentation showing TNK’s dry docking schedule for 2016, the second half of 2015 will have 16 dry dockings in total. The high number of dockings is being done partially in advance of ballast water treatment modification requirements anticipated to come into effect in 2016. And partially to improve the fuel efficiency of some of the newly acquired vessels.

It is expected that ten vessels will be docked in the third quarter of 2015 with plans to dock the remaining six vessels as early in the fourth quarter as possible.

Given this schedule we expect these vessels to be fully available for trading during the firm winter spot market. And TNK does not anticipate any dockings in 2016 as a result of this.

Turning to Slide 10, the underlying fundamentals which have driven strong demand for tankers, namely high crude oil supply and rising oil demand are expected to remain strong during the second half of 2015.

First looking at oil demand in the chart at the top left of the slide, the IEA has continue to adjust its annual oil demand growth forecast upwards over the course of the year.

Starting with an initial slightly bearish annual demand growth forecast of approximately $900,000 - 900,000 barrels per day in January, the IEA has gradually increased its average oil demand per day forecast for the year to 1.2 million barrels per day in July as low oil prices have continued to prompt increased end-user demand.

Tanker demand in the second half of 2015 and ’16 is expected to be supported by ongoing stockpiling programs in China as buyers take advantage of persistent low oil prices.

Looking at the graph at the top right of the slide, the supply of oil is expected to outpace demand by approximately two million barrels a day in 2015, and approximately 800,000 barrels per day in 2016.

As a result, the substantial imbalance between supply and demand is expected to keep oil prices at their current low levels through 2016 which should continue to encourage stockpiling and high refinery utilization.

In addition we expect instances of port delays due to tank space limitations in Europe, Singapore, and the U.S. Gulf will continue to tie up vessels throughout the remainder of this year and well into next.

Overall we expect the strength of the current tanker market will persist through the remainder of 2015 and into 2016 as the positive fundamentals of low free growth, low oil prices, and increased demand underpin the crude tanker market.

Wrapping up on Slide 11, I would like to summarize how Teekay Tankers continues to use a variety of levers to execute our strategy and deliver significant shareholder value.

Over the past year we have actively pursued in-charter tonnage while also reducing our out-charter commitments as vessels roll off their existing tank charter obligations.

During this time we have increased our fleet of in-charter tankers by 12 ships which is contributed to a substantial increase in out spot exposure to 85% of our combined owned and chartered-in fleet.

We have also continue to utilize Teekay Tankers strong operating platform to pursue accretive consolidation and investment opportunities. In the past year we have secured accretive acquisitions of 17 high quality, on-order midsized tankers including the 12 Suezmax tankers that we agreed to acquire this week which have also contributed to our increased operating leverage.

In addition to our tanker earnings we have also sought opportunities to enhance our revenue base from three base businesses. In addition to our July acquisition of SPT which will add a full suite of ship-to-ship service revenues to our business, in the past year we acquired a 50% interest in Teekay Corporation's commercial and technical management operations which provide a strong platform from which to generate fee revenues through our core tanker chartering and technical management business.

Finally, we have further enhanced our financial strengths by applying a portion of our strong free cash flow generation to reduce Teekay Tankers net debt to book capitalization from 72% at the beginning of 2014 to 56% at June 30, 2015, giving pro forma effect to this past week's acquisitions.

We believe our ability to utilize a variety of levers to execute on our strategy positions Teekay Tankers well for the creation of shareholder value over the long-term.

Combined with strong tanker demand and supply fundamentals, our recent accretive acquisitions have enhanced our ability to generate strong free cash flow per share which is a key contributor to Teekay Tankers ongoing financial strength.

With that operator, we now are available to take questions. Operator, are you on the line?

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, please press star 1 to ask a question.

The first question comes from the line of Jon Chappell from Evercore ISI. Please go ahead.

Jon Chappell: Kevin I have to start with the obvious, a couple of comments both in the presentation and the press release about the enhanced dividend paying capacity from this transaction announced this week - 96 cents of free cash flow in the first two quarters of the year, and 6 cents in dividends.

So obviously you can’t speak to exactly where the policy is going to go, but maybe you can just talk about the thought process of a floating dividend kind of returning to what TNK was originally constructed as to a sustainable fixed dividend.

And maybe even more importantly, maybe the timing around a change in the policy now that this acquisition is in the rearview mirror.

Kevin Mackay: Thanks Jon. I think first and foremost I just - I'd like to say the idea of this strategic move to take on these 12 additional units was really at the back of our mind, adding shareholder value and being able to generate increased cash flows so that we can stick to our plan of delevering the balance sheet and creating financial strength with a view to then looking at where our dividend policy would go.

I think - Vince, you want to...

Vincent Lok: Yes, Hi Jon. Maybe I can just elaborate a little bit more on the dividend question. As we mentioned last quarter, we believe it is prudent to continue to delever our balance sheet further before considering increasing our dividend.

But as Kevin mentioned, given the significant amount of equity that we've used to finance these recent acquisitions, as well as the significant free cash flow generation, even before the principal Suezmax fleet hits our balance sheet, you can see that these acquisitions will not result in a material change to our financial leverage.

So really there's been no change - no real change to our original timeline on the dividend. And I should add that it is - it was important to our Board that these acquisitions would not impair our ability to increase our dividend going forward. And in fact, since these transactions are significantly accretive to our free cash flow per share, we've actually enhanced our capacity to increase the dividend going forward.

So given the rapid delevering in our balance sheet, in terms of your timing question, I don't think we can be that specific. But I can say that we plan to talk to our Board later this year on our dividend policy.

But in the meantime the excess free cash flow that's retained in the company is increasing our net asset value of the company and at the same time, strengthening our balance sheet.

And if you look at our 50 cents of Q2 free cash flow versus our three cents dividend, you can see we have capacity to do both to increase the dividend and delever the balance sheet at the same time.

Jon Chappell: Okay, I will leave it with that. A couple of other questions. On the SPT transaction Vince, since I have you, how do we even go about modeling something like that?

I mean you gave us the EBITDA contribution. But is there any visibility on, you know, the top line versus the cost associated with it? Is it a seasonal business? How would you get started o modeling that business out?

Vincent Lok: Yes, I think we can give more details once, you know, the acquisition has been implemented. As we guided, we expect the annual EBITDA for SPT to be about $10 million to $12 million. And that cash flow is fairly stable because the lightering support business is a fairly stable business.

On top of that we will be using a portion of our existing fleet to trade in the full-service lightering business. So that will enhance the utilization of our existing fleet on top of the $10 million to $12 million of EBITDA that I mentioned.

In terms of top line, I think it's difficult to estimate that at this point in time. I would say that the topline revenue roughly speaking would be about $65 million to $70 million, and then the EBITDA margin of $10 million to $12 million. So therefore our operating costs would increase.

And then there's probably some depreciation related to some of the support vessels and fenders and things like that. So that's all been built into the pro forma figures that you see on Slide 8.

Jon Chappell: Okay, that's very helpful. Thanks Vince. Just one or two other quick ones. The issues that you talked about Kevin - the non-recurring issues with the three vessels, two it sounds like have been rectified, can you just give a little bit more information on what happened there?

And then I guess even more importantly the - was the remedy completed by June 30, or was there some carry though into the third quarter on these issues?

Kevin Mackay: Yes, it was - of the three ships, obviously the one ship that I pointed that has not delivered; one of the in-charter ships, they have not delivered because of vetting issues. And really the other two ships are very much along the same lines of vetting challenges.

One of the vessels we purchased earlier in the year in the transition from technical management over to TNK. The vessel had some idle time and because of her positioning, it took us two or three voyages because we could get the requisite number of vetting inspectors on board to clear enough oil majors to give us unrestricted trading on that ship.

So that's all been completed and that ship is fully integrated into the system and is operating as per the rest of the fleet.

The other in-charter vessel that we had in the fleet had a minor incident that required the oil companies to put her on technical hold. She came off technical hold. Different oil majors approve it at different speeds, so there was restricted trading on her that we incurred. But that has now been removed and she is free and clear to trade as per the rest of the fleet. We don't anticipate that to be an ongoing issue.

Jon Chappell: And the one that still had the - that hasn't been delivered yet, is that reflected in this appendix, fleet employment profile? Is that ship not there or how do we kind of match those two up?

Kevin Mackay: It's still there. It is still on the appendix. Because that...

(Crosstalk)

Kevin Mackay:...because at the end of the day Jon, the ship will deliver to us. We still have the charter - the owner still has the charter obligation to the fleet. And once they get some technical answers to oil companies and get the vettings approved, we expect her to be delivered to us and we'll take the charter through the balance of the period that they have committed to.

Jon Chappell: Okay, super-fast last thing; the last appendix with the dry docking, you mentioned 16. There's 18 in here. I'm just wondering, in one of the footnotes it said that there was a couple of principle ships that have to go into dry docking. Does this incorporate principle dry docking as well; this appendix?

Kevin Mackay: It does. There were a couple of ships that required docking in 2015 and we're going to put some fuel efficiency modifications on those.

The actual - the appendix that you got should have been updated. By now it should reflect 16 instead of 18.

Jon Chappell: Oh, okay. All right, thanks a lot Kevin. Thanks Vince.

Kevin Mackay: Thanks Jon.

Operator: Thank you. And the next question is from Michael Webber from Wells Fargo. Please go ahead.

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

Kevin Mackay: Good morning Mike.

Michael Webber: Hey Kevin and Vince, I just wanted to dive in real quickly on the dividend. Jon hit most of it, but just to make sure we're clear, around I guess the thought process, would it be fair to assume, likely see with your sister companies in TO and TGP, some sort of cash flow based metric when evaluating the dividend policies once you get to your, whatever pro forma leverage level you're comfortable with?

Vincent Lok: Hi Mike. As I think we mentioned last quarter, as you know in the past we had a full variable payout dividend in TNK. And we mentioned that we wouldn't return to a full payout dividend policy. But we will evaluate all the different alternatives in terms of the variable dividend versus a fixed dividend, taking into account the nature of this business being, you know, more variable versus our MLP business which is much more stable.

Michael Webber: Sure.

Vincent Lok: So I can't be very specific I guess, on which direction we would go. But I think we would evaluate all the alternatives.

Michael Webber: No that's fair. Just to circle back on the deal, and it seems like, you know, it was accretive to NAV which is increasingly rare within the capital markets right now.

Just curious, considering the strength of the equity currency and that there is a lot of other kind of M&A kind of bantered about the market, how do you guys think about your capacity right now to look beyond the ((inaudible)) fleet, and whether or not you think you would need to take some time to digest, or whether you think you remain relatively active without, you know, painting yourselves into a corner in terms of actually doing something.

I was just curious as to what you think your appetite would still be right now for additional tonnage, again considering the strength of the currency and that you're actually using it to create value from an NAV perspective?

Kevin Mackay: Well I think it's a good question Mike. Having just completed the transaction yesterday, I'll be honest, I think the team really wants to focus on the transaction at hand. And you know we have...

Michael Webber: More than 12 hours to digest it, I guess?

Kevin Mackay: Yes. As well as the SPT transaction which does require some integration into our program. So for the time being we're focused on really extracting the value out of these acquisitions and making sure that the assimilation into our program is smooth and seamless.

You know, it's critical that we get both entities or both acquisitions integrated. And on the ship side to get them fully operational and in the system by the fourth quarter.

So at this point in time I would say to you, that's where our focus really is. You know we'll continue to look at what's in the market in opportunities, and do the evaluations as we've done with this for these two acquisitions.

So not ruling it out, but it's not high on the agenda right now in terms of where the team is paying attention and focus.

Michael Webber: Fair enough. One more for me and I'll turn it over. And Kevin you kind of hinted at this in your prepared remarks. I think you mentioned on Slide 10, around flow prices, encouraging stockpiling, you know we've got obviously low crude prices, relatively firm inventories.

I saw a sharp jump in gasoline inventories earlier this month. And it looks like we could be kind of heading into a period where we see refineries either easing up on runs or kind of moving towards seasonal maintenance.

I'm just curious, how realistic do you think, slightly larger scale floating storage is for the back half of the year? And if we were to start seeing that, when do you - when will you start hearing about it from a commercial basis? Would it be just increased delay discharge and then start ((inaudible)) into firm storage contracts? Just curious, as to what your thoughts around that in the back half of the year?

Kevin Mackay: I think just based on what I've seen the last forward curve on the oil price, the contango play just isn't there with tanker rates at the levels they are. I think we're probably 80 cents a barrel shy of what would make economic sense to store.

What we are seeing though, and it's relatively - it's across the fleets. Aframax is, as well as Suezmax, is shorter term for their stockpiling. Traders and oil companies taking vessels in the market and holding them for 15 to 20 days before deciding on delivery destinations and who they're selling to.

So, I think that will continue. I think as the refineries go into a greater period of maintenance, the oil has to be kept somewhere. And I think the shore tanks at Saldanha Bay is approaching tank tops. The U.S. is probably 20 million barrels short of capacity.

So I think there is an opportunity for it to happen, but I think the forward oil price has to drop and maybe tanker rates not spike as high as, you know, what they need to do to get that contango - the 80 cents margin to narrow.

Michael Webber: Got you. I can follow up on that later. Thanks a lot for the time guys.

Operator: Thank you. The next question is from Noah Parquette from J.P. Morgan. Please go ahead.

Noah Parquette: Thanks. Just kind of a broader market question. You know asset values for ships haven't really moved up along with rates. I mean it's obvious with the cash flow generation from the deal that you just did.

Can you maybe talk about why that is? I mean if it's a scarcity of capital; if it's expectations? And then finishing up the process, you know, how competitive was the bidding for the fleet that you just bought? So, any insight there would be helpful.

Kevin Mackay: Yes, I think you're right Noah in stating the asset prices have lagged the spot tanker rates. My sense is that it's a delayed reaction from people trying to fully assimilate the fundamentals of the market are here to stay.

You know we've just come out of an extremely long winter doldrums. And I think it's taking people time to look at what's driving this market and really getting an understanding of the underlying causes of it.

So I think that's why maybe you've seen some hesitation in the first quarter. Liquidity has definitely picked up in the second quarter. We've seen a lot more activity on second-hand sales and such like.

And I think the competition for this acquisition was fairly competitive. I think there was a few companies out there may not be able to follow the whole fleet, but certainly able to take a large chunk of assets.

I mean that was what really gave us the advantage in this acquisition was that TNK had the ability to take on the entire fleet in one gulp. And our track record of executing on transactions of this scale and this nature. And that's what made us, you know, and gave us the competitive advantage.

Noah Parquette: Okay. And then moving on to you know, the charter market, you know you're still mostly spot but you still have a couple of ships on charter. And we've seen more longer term two and three year charters in the last couple of months.

And what are you hearing when you talk to charters? Are you happy with your spot exposure? You know, what's your kind of target going into next year?

Kevin Mackay: Yes, I think customers have actually - they've been the same as ship owners. They've sat on the sidelines for most of this year looking at what is driving this market and if it's sustainable.

And I think they've come to the conclusion that it is here. That robust rates are not going away any time soon. And they're now starting to look at covering their positions and taking out some of the volatility they are exposed to in the spot market.

So it's definitely more inquiry, and they're reaching out further. You know three year deals are being done and are being inquired about, and even longer term.

So I think from a customer's perspective they're now on board and they're there to do things.

From our perspective I think I would, you know, reiterate what I've said on this call previously, that we'll manage our portfolio in a way to give us the best exposure, but also understand that it is a portfolio.

And if we see some good opportunities to lock in some of these high mid-term TCs, we'll evaluate that against the - our expectation of the forward market. And if they're attractive we'll put between 20% and 30% of the fleet out on a covered basis.

But it will be a moving target and a lot will depend on what the TC market is doing and that the spot market is doing.

Noah Parquette: Okay, that's great. Thank you.

Kevin Mackay: Thanks.

Operator: Thank you. And the next question is from Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, hi guys and thank you. And congratulations for the two acquisitions. I'm trying to understand about your expansion and the plans of potentially renewing the fleet.

You recently you just bought 12 Suezmax's. You still have in your fleet three vessels which are about 15 year's old. Are you thinking of disposing of these now that you have already grown the fleet with new tonnage?

Kevin Mackay: You know that was one of the attractions of doing the Principle Maritime acquisition was the below average fleet age of 5-1/2 years which really helped us to bring down our overall fleet age by 1.2 years.

You know it is on management's mind that part of our fleet is getting up to that 15 year range. So the acquisitions we did in the latter half of last year and this acquisition that we've done just recently, that was certainly a factor in our decision-making was looking at the long-term health and rejuvenation of the fleet.

Fotis Giannakoulis: And going to the supply side on Slide 6, we clearly see that the supply in the next couple of years is picking up. You obviously consider it is still at a very manageable level, at least for 2016.

What is the expectation that you have for global oil supply growth next year that is required in order to absorb this fleet expansion? I understand that from what I see there, it's similar growth both for 2016 and 2017. So how much oil supply will have to grow to absorb that?

Kevin Mackay: I think first that you're right in we have to recognize there is an increase over 2015 in terms of the supply. But I think as we've pointed out, as we move into '16 and '17, I think a lot of owners, they're going to be facing some decisions around CAPEX requirements for ballast water treatment and second and third special survey costs. You might see some change on the scrapping side.

In terms of oil supply, you know OPEC - the OPEC Minister recently came out and said that there was going to be no change in their approach to production. So our forecast as we've pointed out in '16, we're going to have OPEC staying the course.

We've also got Iran as a potential added supply source. Whether than ramps up to 200,000 barrels a day of FX production or a million barrels of production, I will leave oil analysts to better articulate that one.

But my view is it will be a slow gradual increase of supply into the market, on top of what we've already got coming out of the Middle East.

Fotis Giannakoulis: And in terms of what is required in order to absorb the -- if I am not mistaken, there are about 55, 56 ((inaudible)) scheduled for delivery next year. How many of these vessels do you think that they are going to be delivered?

And in order for these vessels that will be delivered to be absorbed by the market, how much more crude flows do we need to see from OpEx or from other areas of the world?

Kevin Mackay: I think you've got a million to a million and a half barrels of demand growth projected for 2016, 2017. So a lot of that tonnage is going to be required to meet that demand. If you look at where that production is coming on, we expect it to be a mix of OPEC and non-OPEC production.

So I think a lot of it will depend on the source of supply which could impact ton/mile demand. As well as low oil prices, if they maintain, you're going to see more storage which will absorb, you know, or could absorb a significant portion of these deliveries coming in.

(Crosstalk)

Kevin Mackay: And really I mean the view is the, you know, especially for the Suezmax's, ton/mile growth, just from the diversity of supply source will eat up a lot of that supply that's coming on line.

Fotis Giannakoulis: Is there a point that you might be concerned that instead of building up even towards like it's happening right now, we might see that the demand is going to be met by existing inventories and bringing down inventories?

And how long do you think that if that happens, it can sustain without - with demand lagging - with supply lagging demand?

Kevin Mackay: Well I think - that's a good question. I think what you'll find is as we move into '16 with political instability in various regions and supply - potential supply disruptions coupled with lower oil price environment that's driving stockpiling for SPRs.

I think it's going to be a volatile market. It will be a market that's difficult to read. And we'll have to keep our eye on the game and make sure we adapt as the market dynamics change.

Fotis Giannakoulis: Thank you very much. One last question about the ship-to-ship transfer business. If you can give us a little bit more color of how shall we think of the drivers of this business and how stable this business is? And how it can grow in the future? And if it's going to be required, significant more capital in order to expand this business?

Kevin Mackay: I think as Vince has already articulated, it is a fairly stable business that doesn't get materially affected by seasonality. It's a global business with steady cash flow. I think at the moment on a global basis, SPT is number two in the world. So we'd be looking to grow our market share from that.

In the U.S. Gulf at the moment there is significant growth that we think we can take on through the full-service lightering piece. So it's a business that is not a large business, but it is and does provide a steady and decent cash flow of about $10 million to $12 million of EBITDA per year.

And we would look to grow that year-on-year without a lot of capital expenditure required.

Fotis Giannakoulis: Okay, thank you very much for your answers.

Kevin Mackay: Thanks Fotis.

Operator: Thank you. The next question is from Omar Nokta from Clarksons Platou Securities. Please go ahead.

Omar Nokta: First just on the Principle deal, when should we assume that that's going to - when's the closing on that? And then also, sorry if you addressed this, but are there going to be any vetting requirements that would need to take place on that fleet?

Kevin Mackay: Yes, the acquisition is done. The individual vessels will deliver over the course of the next three months and should all be integrated into our fleet by the end of October. Sorry, your second question around the technical management?

Omar Nokta: Yes.

Kevin Mackay: Our intent is to, as some of the ships go into dry dock, we'll transition those ships over to our technical management. But over the winter period, those ships that will continue trading, we'll leave technical managers on board to make sure that we don't have any issues around vetting.

And we'll waiting until sometime later in 2016 to make that technical transition.

Omar Nokta: Okay, thank you. And then also just on the 17 dry docks, for the second half of this year, what's the estimated cost on those?

Kevin Mackay: It varies depending on the age of the vessel and the modifications that we're putting in place on them. But anywhere from a million and a half to $2 million for some of the older units.

Omar Nokta: Okay, all right thanks. And then you know, just finally, you know, you guys that list the ATM. You've issued the $37 million or so thus far. You know, what are your thoughts now that you've got - you definitely got the liquidity and you've made these transactions. The market is on fire. What are your thoughts on the ATM?

Are you still planning to tap into that? Any thoughts on closing that early or potentially expanding it?

Vincent Lok: We should have $40 million available under the existing ATM or comp. As you said, we did about 37 in June so, that is available for us. I don't think we've made any decisions yet on that. At the same time as we mentioned, we're generating a lot of free cash flow as we speak, even without having to do any more equity issuance out of the ATM. So we have that flexibility. We haven't made any decisions on that.

Omar Nokta: Okay. All right, thanks guys. That's it for me.

Kevin Mackay: Thanks.

Operator: Thank you. And the next question is from Shawn Collins from Bank of America. Please go ahead.

Shawn Collins: Great. Hi Kevin, Vince, and (Ryan). Good afternoon and good morning.

Kevin Mackay: Hi Shawn.

Shawn Collins: So you've been very active recently. The announcement of the ship-to-ship transfer business, can you just talk about how that opportunity arose and mention what the prior ownership percentage was between Teekay and IM Skaugen? I'm not sure if I said that right.

And lastly, will that operate as a standalone unit or do you foresee that that will help your spot shipping business in any way?

Kevin Mackay: Okay, some good questions. The rationale really around the ownership or the acquisition was it didn't come out of the blue. Teekay Corporation has obviously been a 50% owner of that joint venture with IM Skaugen. So there is material knowledge around how the business works and things of that nature.

A big impetus to the change has really been, you know, my coming into the organization a year ago and my background having run a lightering business in the U.S. Gulf.

You know when I looked at Teekay's participation I felt that with TNK taking on the ownership of the entity outright as a fully-owned entity, I felt we could do a lot of things that the joint venture wasn't doing or wasn't capable of doing.

So it's really - I see a potential there. Customers that I've spoken in the past year have looked at the market. And at the moment one of the only participants in the market has about 90% market share. And both the customers I've spoken to and when I was a customer you know, 15 months ago, customers don't like only having one option on the table.

So I think there's - we've been encouraged to look at this and we've been encouraged by the support that we're expecting to get from customers to help us grow the business.

So it's something that we thought would be immediately accretive. It fits in well with the rest of our Aframax program. And from a strategic standpoint we viewed this as a capability to build up a hub in and around the U.S. and South America where we feel that the Panama Canal widening and potential for U.S. Gulf exports, if there was a way where we could secure a steady flow of cargo access to keep our ships in and around this area, we feel that that will pay dividends over the long term.

So it had strategic benefit. It had immediate synergies with the business that we already had, and we've got a lot of knowledge around how to do this well. So that was the premise behind it.

Shawn Collins: Okay, that's great. That's very comprehensive. Thank you Kevin. Can I just clarify; did you say that the number one player has 90% of market share? Is that correct? And if not, what would the market share of the number one player be and the number two player, SPT?

Kevin Mackay: On the 90%, that's for U.S. Gulf full service ship-to-ship transfers. On a global basis it's a different competitor base that we're looking at. So this is purely the integration of Aframax's with the support service. And I think at the moment SPT has about 10% of the market - 7% to 10%.

Shawn Collins: In the U.S. Gulf?

Kevin Mackay: Correct.

Shawn Collins: Okay great, that's helpful. Well that's very helpful. That's all for me. Thank you for the time and insight.

Kevin Mackay: Thanks Shawn.

Operator: Thank you. And the next question is from George Berman from J.P. Turner Company. Please go ahead.

George Berman: Good afternoon gentlemen. Thanks for taking my call.

Kevin Mackay: Thanks George. Go ahead.

George Berman: The recent opening of the Suez Canal - the Suez Canal; the widening, is that going to shorten some of the distances that you travel?

Kevin Mackay: No, it won't materially change anything. The additions that have been made to the canal in the Suez is really a transit time benefit where they've cut down transit times to about eleven hours now to transit the canal which is not a material impact on how we trade ships or the benefits of going through the canal.

George Berman: Okay. The - you just answered the other caller's question. The aftermarket stock offering has not been cancelled yet?

Vincent Lok: No, our ATM had an initial amount of $80 million of which we used 37 in the second quarter. And so the remaining 43 is still available.

George Berman: Okay. If you can cut that offering because there's no need for it no more, you would probably make an announcement to that effect?

Vincent Lok: Sorry, can you repeat that question?

George Berman: If you cancelled the remaining aftermarket offering, would you make an announcement to that effect?

Vincent Lok: If we cancelled it, I'm not sure if we're required to make an announcement. I think it would be part of our regular SEC filings which will be filed on a quarterly basis. That's probably where we would disclose something like that. We have no intentions to cancel it. It's there, it's a flexible tool for us.

George Berman: Last question. If Iran was to start export oil, how big is their fleet that Iran would bring into the marketplace? And/or if you could quantify, how many, outside of Iran, ships would be necessary to say facilitate a half million daily export of oil from there?

Kevin Mackay: I think Iran's current fleet of VLCC stands at I think, 37 Vs of which half of them I believe are on storage at any given time.

In terms of how many vessels will be required to meet any increased production, a lot of it will depend on who buyers are. And you know, Iranian light and heavy can go in a lot of different directions whether it's to Europe or to Asia.

So we'll have to wait and see where those barrels - whether they actually come to market. And when they do come to market, who the eventual buyers are.

George Berman: Okay. And the - recently in Saudi Arabia and the area, several new refineries came on line. And I understand that they would necessitate they have a lot more of the MR and LR tankers available to transport the diesel jet fuel and Naphtha and what have you. Has that had an impact on the day rates as well?

Kevin Mackay: Yes, absolutely. I think that ((inaudible)) and Yanbu coming on line has really given the impetus to the LR2 market as you've seen reflected in our Q2 results for the LR2 sector, and what we anticipate will be an even stronger third quarter for that space.

So it's a new dynamic to the market and I think we are well positioned with the acquisition that we made in December - late last year, early this year where we brought in additional four LR2s. We hope to benefit quite well from putting those in that robust trade.

George Berman: Okay, okay. Last question, I'm kind of a novice in the shipping market. Could you give me an example of where a ship-to-ship transfer situation was needed?

Kevin Mackay: Sure. When you bring in large vessels - VLCCs or Suezmax into draft restricted locations such as you have in the U.S., you have to take a volume of cargo off of the larger ship and put it on to smaller ships and transit it into those river based refineries. So that is where you have a significant need for the STS transfer expertise.

George Berman: Okay. All right great. I'll be looking forward upcoming quarters. Thank you very much.

Kevin Mackay: Thank you George.

Operator: Thank you. Again ladies and gentlemen if you have a question, please press star 1. And the next question comes Amit Mehrotra of Deutsche Bank. Please go ahead.

Amit Mehrotra: Yes, thank you. I'm glad I made it in. I had a follow-up question along the lines of the dividend. You know Kevin, can you just give us some thoughts on how you think the company's - or TNK's story will develop from here?

You know and the reason I ask it is, a target on the dividend in terms of a percentage of free cash flow or something tied to something like that, you know it seems to be where a lot of the public tanker companies are going.

But at the same time it also -- excuse me -- limits your flexibility. You know, if you've not fully fulfilled your ambitions on where the company will ultimate - you know, what the company will ultimately become.

So in that context, you know, will the TNK story sort of continue to be a growth oriented story from a fleet expansion standpoint? Will it evolve into a dividend or deleveraging story after yesterday's announcement? Can you just sort of help us out in terms of how you're thinking about that and you know, what your ultimate sort of ambitions are for the company?

Kevin Mackay: Yes first of all on the dividend, I think Vince has already articulated it in terms of the structure of it which we haven't gone through with the Board. So we can't comment on that.

But I think looking forward in terms of where is TNK going, you know obviously our goal and our desire is to be the world's leading tanker brand. And we've really secured that place in the midsized tanker space which we're going to continue to concentrate on. And the acquisition that we've just taken on yesterday really fits into that space.

At the end of the day our view has always been to run this company to create value and accretion for our shareholders. So whether it's through fleet growth or buying businesses that allow us stable cash flow to weather through tanker cycles, I think you'll continue to see us look for opportunities that align with what our core strengths are, with always the view of creating value.

Amit Mehrotra: Okay. All right, now just one follow-up if I may? And you had mentioned in your prepared remarks the benefits of scale that the acquisition brings. And you know I think the benefits of scale sort of start to phase out at some point given the cost structure characteristics of the business.

But certainly moving from, you know, ten ships to 22 ships on the Suezmax side does offer some opportunity for cost savings and synergies.

Can you just elaborate more on that and maybe, you know, what type of benefits you may be able to achieve sort of from an OpEx cost standpoint?

Kevin Mackay: I think, you know, I said this on previous calls. We're not growing for growth's sake and we're not aiming for - to be the, you know, having more ships than anybody else which as a statement is more around how do we build a portfolio of assets that we feel comfortable deploying in a market where we can generate good, strong revenues and return to the shareholder utilizing an expanded customer base.

So the fact that we've gone from ten to 22 Suezmax's is really s statement around our comfort that with our customer base and the support that we will get, and the expanding trade routes that we're seeing in this Suezmax sector, that there's areas of the world that we're not penetrating today that we can grow in to and that we can fully deploy a fleet of this scale.

Amit Mehrotra: Okay, got it. Thanks so much, appreciate it. Nice quarter.

Kevin Mackay: Thanks.

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

Kevin Mackay: Okay, I would just like to thank you for joining us on the call. Obviously we're extremely excited about the two recent acquisitions and the attractive price that we were able to attain on both of those. And we look forward to showing you the results of those acquisitions in future quarters. Thank you very much.

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

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