TEEKAY TANKERS LTD.

Moderator: Emily Yee
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12:00 pm CT

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

If you would like to ask a question at this time simply press star 1 on your telephone keypad. If you would like to withdraw your question press the pound key.

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

Kent Alekson: Before Mr. Chan begins, I would like to direct all participants to our website at www.teekaytankers.com, where you will find a copy of the second quarter of 2012 earnings presentation. Mr. Chan will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the second quarter of 2012 earnings release and earnings presentation available on our website. I will now turn the call over to Mr. Chan to begin.

Bruce Chan: Thanks, Kent. Hello, everyone, and thank you very much for joining us. With me here in Vancouver is Vince Lok, Teekay Tankers' Chief Financial Officer, and Peter Evensen, Teekay Corporation's CEO. During today's call, I will be taking you through Teekay Tankers' second quarter earnings results presentation, which can be found on our website.

Beginning with our recent highlights on slide 3 of the presentation, 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 principal repayments. In the second quarter of 2012, Teekay Tankers declared a dividend of $0.11 per share, down from $0.16 per share in the previous quarter, mainly due to a weaker spot tanker market for Suezmaxes and Aframaxes, as well as a one-time transaction cost of $750,000 associated with the recent 13-vessel acquisition. Our second quarter dividend, which is our 19th consecutive quarterly dividend, will be paid out on August the 27th to all shareholders of record on August the 20th.

In June, we successfully completed the acquisition of 13 modern conventional tankers and related time charters and debt facilities from our sponsor, Teekay Corporation, for a total purchase price of $454.2 million. The transaction has made Teekay Tankers one of the largest owners of mid-size conventional tanker tonnage and has enhanced our modern fleet at a time of increasing discrimination by charterers against older tonnage.

We continue to focus on tactically managing our fleet to enhance our fixed rate coverage during this period of weak tanker markets. During the second quarter, our fixed rate fleet earned an average of $20,400 per day, which is more than $3,000 per day higher than the average rate of $17,100 per day earned by our spot traded vessels. Our ability to obtain new time charter coverage to replace charters that have recently expired is a competitive advantage, because it supports the stability of our dividend.

In addition to the nine vessels in the fleet acquired from Teekay Corporation with existing time charter out contracts, we recently time chartered out two additional Aframax tankers at above-market rates, leveraging Teekay Corporation's extensive chartering relationships. In combination, the additional time charter coverage provided by both the acquisition and recent time charters has increased Teekay Tankers' fixed rate coverage from 29% to 47% for the 12-month period commencing July 1, 20 12. Lastly, Teekay Tankers remains financially well positioned following the recent transactions, with total liquidity of $386 million with no significant debt maturities until 2017. Our strong balance sheet and liquidity places us in a strong position to pursue future accretive growth opportunities.

Turning to slide 4, we have provided the details of our recent time charter transactions. We continue to actively manage our fleet employment to ensure the right mix of downside protection through fixed coverage in the current weak tanker market and upside potential from spot exposure. Given the weakening tanker market outlook over the near term, we recently entered into two additional one-year time charter out contracts at rates above the current spot market.

In addition, we have the opportunity to charter in an additional spot-traded Aframax tanker at a relatively low rate, which, when combined with one of the recent out charters, locks in approximately $2,000 per day of cash flow for the initial six-month firm period of the in-charter contract. In-charters are an ideal way to take on operating leverage without requiring a large capital commitment, preserving our balance sheet and liquidity for future acquisition opportunities. The options on the in-charter also provide us with flexibility to extend if the spot market turns out to be stronger than expected or redeliver if it turns out to be weaker.

On slide number 5, we have provided an updated summary of Teekay Tankers' fleet employment profile, with the 13 vessels recently acquired from Teekay Corporation highlighted using green bars with black labels and Teekay Tankers' pre-transaction fleet shown as blue bars with the blue labels. As I noted a moment ago, many of the acquired time charters provide coverage through

2012 and into 2013, locking in revenue at a time when we expect further spot market weakness and volatility.

As a result of these additional fixed-rate charters and our recent charting transactions, Teekay Tankers' fixed cover for the 12 months commencing July 1, 2012, has increased from approximately 29% before the transaction to approximately 47% post-transaction. Currently, Teekay Tankers' fleet consists of 28 owned vessels, one time chartered in Aframax and one 50%-owned VLCC new building scheduled to be delivered in the second quarter of 2013.

Slide 6 provides our dividend outlook matrix for the third quarter, based on our current fleet employment profile and various spot tanker rates. Based on approximately 40% of days booked for the quarter, spot rates are showing segment-specific volatility, averaging approximately $11,800 per day in the Aframax LR2 segments and $14,000 per day in the Suezmax segment.

However, current Aframax and Suezmax spot tanker rates are currently lower than what we have earned so far this quarter, and we expect spot rates to stay at these lower levels for the remainder of Q3, for reasons I will go into on the following slides. It is also important to note we have heavy dry-docking commitments in the third quarter of 2012, with three ships scheduled for dry dock during this period. While this reduces our revenue days for the quarter, taking the ships out of service during the traditionally weaker summer months helps prepare our fleet to maximize revenue days during the expected stronger winter market. It should also be mentioned that we have increased our debt principal reserve post-acquisition to $5 million. Consequently, the acquisition may not appear as accretive to the dividend but is accretive to cash available for distribution.

Turning to slide 7, we take a look at recent developments in the spot tanker market. As shown by the chart on the slide, spot tanker rates are historically at their weakest during the second and third quarters of the year. This was particularly evident during 2011, when excess vessel supply and weak tanker demand ensured that rates remained very low through spring and summer months before regaining some ground over the winter.

The first half of 2012 has played out slightly differently in that tanker rate volatility continued to feature well into the second quarter, particularly in the Suezmax sector, which saw a brief spike to $35,000 per day during May. This increased volatility was a result of very high levels of global oil production through the first half of the year, in order to satisfy demand for crude oil stockpiling, due to fears surrounding the Iranian embargo, which in turn meant an increase in spot tanker movements compared to 2011 levels.

However, demand for crude oil stockpiling has declined in recent weeks, compounded by a slowdown in global oil demand, due to a weakening global economy. This has started to affect tanker rates, with earnings in the Aframax and Suezmax sectors falling to approximately operating cost levels in recent weeks. As a result, we expect that spot rates for the rest of the quarter will average below what has been booked for Q3 to date. The one brighter spot in recent weeks has been the LR2 market, which has strengthened, primarily due to an increase in NAFTA movements from the Middle East and Europe into Asia. As a result, earnings on the benchmarked Middle East to Japan route recently reached their highest point since the third quarter of 2010, at approximately $16,000 per day.

Turning to slide number 8, our outlook for the second half 2012 is for a weak summer market to gradually give way to stronger rates as winter market fundamentals kick in during the fourth quarter. Winter market rate catalysts include the onset of heating demand in the Northern Hemisphere, the return of refineries from autumn maintenance programs, and transit delays due to adverse weather conditions. And we expect that these factors will lead to improved rates during Q4. The table on the bottom part of the slide lists some of the additional factors which could affect the tanker market during the second half of the year.

On the upside, lower oil prices compared to the first half could lead to a recovery in oil consumption, particularly in the OECD, where demand is more price-sensitive than in the non-OECD. The recent reopening of refineries which had previously been idled in the US and Europe could also be positive for crude tanker demand, though some of the US East Coast refineries are trying to access cheap domestic shale oil, rather than more expensive seaborne imports.

Finally, storm activity in the Gulf of Mexico could yet have an impact on tanker rates in the Atlantic, despite a relatively quiet start to the hurricane season. On the downside, a weakening global economy due to ongoing economic headwinds in Europe and slower growth in the US and China, could drag on oil demand growth during the second half of the year. Slowing demand growth could in turn spur OPEC production cutbacks if oil prices start to decline, which would be negative for crude tanker demand. In addition, non-OPEC supply problems due, for example, to unplanned outages in the North Sea or geopolitical pressures in regional producers such as Syria and Sudan, could also have a negative impact on crude tanker demand during the second half.

Slide 9 provides an update of our tanker supply and demand growth outlook for 2013. The most significant change is that we have downgraded our tanker demand growth estimate by around one percentage point, based on a weakening global economy. This is in line with what major forecasting agencies are reporting, as shown by the chart on the right-hand side of the slide, which shows the Energy Information Administration, or EIA, oil demand forecast for 2013 in each of their monthly reports this year. At the beginning of the year, the EIA was forecasting oil demand growth of 1.5 million barrels per day in 2013, with strong growth of 1.3 million barrels per day in the non-OECD and moderate growth of 0.2 million barrels per day in the OECD.

However, the EIA has gradually downgraded its demand estimate over time and in its August report was forecasting growth of just 0.9 million barrels per day in 2013, including a decline of 0.1 million barrels per day in the OECD and more modest growth of 1 million barrels per day in the non-OECD. As a result of these changes, we now estimate that tanker demand will grow by approximately 3% to 4% in 2013, rather than the 4% to 5% growth forecast, which we have used in prior earnings presentations. This tanker demand growth is expected to be offset by fleet supply growth of around the same magnitude, meaning that our base case view is for a relatively balanced tanker market in 2013, with overall fleet utilization remaining in the low 80% range. However, the demand side of the equation is a major source of uncertainty in our forecast and is likely to be the main wild card factor for the tanker market during 2013.

Despite a weaker demand outlook for 2013, certain sectors of the tanker market look set to benefit from much lower supply growth over the next 12 to 24 months. This is particularly true in the Aframax and LR2 sectors, as highlighted in the charts on slide 10. The Aframax LR2 fleet underwent a period of high fleet growth in the years 2006 to 2011, but this fleet growth has slowed considerably during 2012, due to a decline in vessel deliveries and an increase in scrapping. Going forward, the Aframax LR2 fleet is set to benefit from a favorable fleet and order book profile, with just 52 vessels currently on order versus a fleet of 890 vessels. This fleet count includes 135 vessels aged 15 years or older that are increasingly being discriminated against by charterers and which face potential scrapping decisions in the near term.

According to our estimates, the Aframax LR2 fleet could shrink during 2013 and 2014, as scrapping of old, commercially obsolete vessels outweighs the delivery of new vessels into the fleet. The Suezmax sector, as shown by the charts on the right-hand side of the slide, does not have quite so favorable supply fundamentals, with an order book of 69 vessels against a fleet of 423 vessels, of which just 49 are aged 15 years or older. This means that Suezmax fleet growth is likely to remain high in 2013 at around 7%, though the order book drops off considerably after 2013, which should lead to significantly lower or even flat Suezmax fleet growth from 2014 onward.

Turning to slide 11, Teekay Tankers remains financially strong and well positioned for future growth. Including the $40 million of incremental undrawn credit lines that we assumed as part of the 13-vessel transaction, Teekay Tankers' total liquidity is currently $386 million, placing us in a strong position to pursue further accretive growth opportunities. Post-transaction, Teekay Tankers has maintained its low principal repayment schedule through to 2016, allowing us to continue to pay healthy dividends to shareholders throughout the current market trough. Additionally, 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. This places us in a strong position to pursue future growth opportunities without requiring further equity raises.

Turning to slide 12, we have provided Teekay Tankers' second quarter adjusted income statement, which highlights the accounting impact of our recent 13-vessel acquisition. Due to drop-down accounting requirements, in accordance with generally accepted accounting principles, we are required to present the financial impact of assets acquired from Teekay Corporation during the quarter as if they were owned by Teekay Tankers for the entire time they were owned and operated by Teekay Corporation. To provide you with a better reflection of the actual contribution from the 13 acquired vessels during the second quarter, we have prepared an adjusted income statement which reconciles to the reported GAAP income statement and breaks out the financials for the 13 vessels for the period when they were owned by Teekay Corporation and also highlights the adjustments that we customarily include in Appendix A.

For comparative purposes, we have also prepared a similar adjusted income statement reconciliation for the first quarter of 2012. I won't walk through the Q2 adjusted income statement on slide 12 in detail on today's call. But as you can see, because Teekay Tankers acquired the 13 vessels late in the quarter, it had minimal impact to our Q2 adjusted results but had a significant impact on the pre-acquisition GAAP results.

Looking back on our highlights for the second quarter, Teekay Tankers' acquisition of 13 conventional tankers in the second quarter of 2012 was a uniquely structured transaction which provided several benefits for the Company. Number one, Teekay Tankers emerged with a younger fleet on average at a time when the weak tanker markets are leading to increased charterer discrimination against older tankers. Secondly, the acquisition enhanced our fixed rate time charter coverage at a time when the oil demand outlook for 2013 appears to be weakening. And finally, it actually enhanced Teekay Tankers' available liquidity, providing the Company with a strong financial position from which to pursue future growth opportunities. With that, operator, we are now available to take questions.

Operator: At this time, if you would like to ask a question, please press star 1 on your telephone keypad. If you would like to withdraw your question, press the pound key. We will pause for a moment to compile the Q&A roster.

We will now take our first question. The first question comes from Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hi. Good morning, guys. How are you?

Bruce Chan: Hi, Mike. Good. How are you?

Michael Webber: Good. Bruce, wanted to jump in and talk about the charter ins for a second. Certainly, they make sense down at this level, but can you talk a little bit about the capacity you guys really realistically have to charter in additional tonnage? And, I guess, would that mostly be within the Aframax class? Just a little bit more commentary around how you think that will actually trend through the back half of the year.

Bruce Chan: Mike, you're right, here. In certain of the segments, like Suezmax, it is harder to find and charter tonnage. The Aframax segment traditionally has had more in and out charter-type activity. We have been able to do in charters, and it really depends on timing of the market and certain owners' positions and requirements for our fixed cover. We do see a capacity to define more in-charters, though, and we do prefer to find them, as you can see with the shorter firm period and multiple optional extension periods, which provides the most flexibility to either add operating leverage if the market rebounds or to just return the ship if the market doesn't.

Michael Webber: Got you. That makes sense. In taking a looking at the dividend guidance, obviously relatively soft, considering how weak the environment is here. And I know – and you guys have gotten this question before, but considering how weak rates are and also the elevated level of debt at the Company now, following the acquisition, has there been any thought to potentially kind of, A, just fixing that distribution level to have a little bit more available cash to play with, to either repay some debt? Or if you fix the dividend to slightly above where you are trending now, to maybe prop up valuation a little bit?

Bruce Chan: I think our dividend policy, Mike, right now is pretty conservative, where we actually withhold for dry dockings and for principal repayments. And there's been – we've been pretty consistent in keeping our dividend policy as is. So as opposed to the other full payouts that doesn't withhold for any of those things, we actually withhold for that. So in the short term here, we don't see any contemplation of changing that.

Michael Webber: Pretty similar to what you guys said at the Investor Day. With regards to your charter coverage, you guys – just looking through the deck, you guys are running sub-40% in 2013. That's obviously a bit lower than you guys typically run, but obviously, the market is pretty soft here. How do you think about attacking that 2013 coverage, and would you expect that that dividend coverage kind of comes from the Aframax segment as well?

Bruce Chan: Well, as we've seen in our track record, I think, as the year progresses, we do find opportunities to out charter. We do have certain relationships where ships will renew because the customers that have them on charter can keep them in their programs. But as you say, the market is weaker, and locking in doesn't have that same type of benefit over spot rates as it had in the past. So, we'll have to see how the market develops. But if we're not getting a meaningful premium over the spot market, then locking in doesn't necessarily have the same impact as it would in the past.

Michael Webber: Right. So you guys would be comfortable going into 2013 with the current coverage ratio you have in place right now and just kind of seeing how it plays out?

Bruce Chan: Yes, 40% is pretty good. And there may be opportunities to do a little bit more, but it is – as we've all seen, this has kind of been the trend. Time charter rates have been coming down.

Michael Webber: Sure. All right. Great. Well, I'll turn it over. Thanks for the time, guys.

Bruce Chan: Thanks, Mike.

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

Jon Chappell: Thank you. Good morning, guys.

Bruce Chan: Good morning.

Jon Chappell: Bruce, another strategy question for you, this one on the expansion front. You're obviously still digesting the 13 ships from Teekay, but you've kind of lowered the expectations for 2013, and rightfully so, given the demand situation. I would like to hear your thoughts about acquisition opportunities from third parties. It seems from Teekay's call that they're probably less willing to invest in the tanker segment right now. Therefore, the warehousing option may not be available. You spoke of your liquidity in the call in the press release, and then you also mentioned at the very end that you wouldn't need to issue equity for acquisitions. So, do you see the acquisition environment improving? And do you see Teekay Tankers as kind of a standalone without Teekay support, wading into that market to expand at the bottom of the cycle?

Bruce Chan: As we said after the drop-down, that Teekay Tankers houses the franchise and is where the growth will occur. And as you say, the demand outlook for '13 is, we've lowered our expectations, but we're still fundamentally past that, believe that tanker market is set for a rebound with the supply coming into check and people not having the liquidity to be able to order ships. So, we see that there are – will be more opportunities to acquire third-party ships over the next – in the near term.

Jon Chappell: Do you think that's kind of a 2013 event, though? Do you still want to digest the 13 vessels from Teekay, or are you actively looking today?

Bruce Chan: The beauty of the digestion of the ships is that it was at least a known transaction, so the digestion period is a little shorter. As for timing, it really – as we've always said, if we crystal ball gaze, we, of course, would buy a huge fleet the month before the market turned. But we don't have that type of visibility. I think we're going to have to weigh the benefits of finding good quality assets earlier but knowing that they're not going to necessarily generate a huge amount of cash flow in the short term, versus waiting, trying to find ships later, closer to a recovery, but maybe missing it a little bit. That's kind of always the trade-off of timing.

Jon Chappell: Okay. You have spoken about the time charter end, but another one we haven't talked about, I guess, in a couple quarters is probably the mortgage opportunities. You've done with it the VLCCs that are expiring pretty soon. There's been some talk in the shipping press and even among some of the ship broker community that you may be working with a Far Eastern owner on financing of VLCC new buildings. Do you have the capacity or the desire to do more of those type of mortgage opportunities?

Bruce Chan: Well, Jon, as we said, the mortgage opportunities were a great part to be in the capital structure during the weak period. I think right now, as time guess on, we want to have maximum operating leverage and take advantage of our cash available for distribution share leverage going forward. And the best way of doing that, we think, is, as asset values have now fallen compared to when we did the mortgage loans, the risk/return of buying assets may start to fall into the favor of buying assets as opposed to lending against them. Better upside opportunity and less downsides.

Jon Chappell: And then, just a couple financial ones for Vince. First of all, you mentioned the three dry dockings, or Bruce mentioned the three dry dockings in the third quarter at the low part of the market. Do you have an estimate for the number of days associated with that, the cost? And then also if you could provide the vessels, since a lot of us model on a vessel-by-vessel basis, that would be helpful.

Vince Lok: Yes, there's – as we mentioned, there's three vessels in the third quarter. The total number of days is about 112 days in the third quarter. If you factor in also the additional OpEx that we usually incur during dry docking, that impacts the third quarter dividend by $0.02 to $0.03. And for next year, we have about five dry dockings scheduled or about 170 days for 2013. In terms of the costs that we reserve, as you can see in the bottom of the table, $3.5 million of dry dock reserve each quarter. So we basically smooth out the dry-docking cost itself each quarter, so you won't get any lumpiness in terms of the costs.

Jon Chappell: Maybe it's easier to do off the call, but do you have the days offhand – or the vessels offhand of the dry-docking ships in the third quarter?

Vince Lok: It's the Ganges, Yamuna and (Nishkmati).

Bruce Chan: That's right.

Jon Chappell: I'm sorry. What was the second one?

Vince Lok: Yamuna.

Jon Chappell: Okay. Thanks. And finally, looking through the financial statement, especially the cash flow statement and the balance sheet, just wondering where the transaction falls in there. There wasn't any significant CapEx, any significant debt assumption. The vessels, as far as assets in the balance sheet, didn't move up significantly. Is that going to cross through those financial statements in the third quarter, or is it something with an elimination with the Teekay?

Bruce Chan: Yes, you might recall in previous drop-down transactions between parents and daughters that we have to apply drop-down accounting, which means that we have to recast the historicals of the daughter to include the historical results of those drop-down assets. So, if you look at the comparatives in the earnings release, the historicals actually include the 13 vessels. So that's why you're not seeing a big change.

That's why in the last page of the earnings presentation, we provided with you a breakdown, breaking out the historical results of the 13 vessels, so you can see the delta there. Same thing on the balance sheet. Vessels and equipment would be the biggest change if you were to compare it to the pre-recast from last quarter. And just as a reminder, the vessels are booked onto Teekay's balance sheet at historical book values, not at the purchase price, so the increase to vessels and equipment was about $550 million. It wasn't actually based on the purchase price of 450, 5.

Jon Chappell: Okay. Got it. All right. Thanks, Vince. Thanks, Bruce.

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

Josh Katzeff: Hi. Good morning. It's Josh Katzeff on for Justin.

Bruce Chan: Hi, Josh.

Josh Katzeff: I just want to start off on the charter opportunities, a little bit of a follow-on to Mike's questions. I guess give me your comments for operational leverage. Should we expect, or would Teekay Tankers look to charter-in tonnage without the matching charter-out contracts?

Bruce Chan: Well, it always has the ability to hedge it against existing charter-out contracts, notionally. It also depends – it would depend on the period of the firm rate and the level of the rate, because if you can get a pretty short flow firm period, low rate in the firm period with options to extend, then you are really pricing options at a pretty low cost and ability to add operating leverage or not. So, again, it's a matter of risk that we want to take on if the firm period is not hedged out, as you say.

Josh Katzeff: And with regard to your current time charter coverage, is it just an issue with, I guess, availability of contracts that we haven't seen any Suezmax pictures? It looks like the majority of your fixed out fleet is Aframaxes on the accretive side.

Bruce Chan: Yes, we've been fixing out opportunistically where the – as you say, where the customers and where the charters have been available and where the rates have been most advantageous relative to the spot rates.

Josh Katzeff: Okay. And one quick follow-on, on new buildings and potential opportunities out there. Is there a preference for secondhand tonnage or new buildings in the market, and how do you evaluate either one of those opportunities when you think about deploying your capital?

Bruce Chan: It really comes down to math on our view of the outlook. Secondhand tonnage, depending on the quality and the age, may have good return prospects, but also new buildings may have a better – as been with Teekay and Peters One Spirit design has more favorable bunker consumption going forward. And so you kind of just – we basically come down to math and which one we can model out that has the highest potential cash flow accretion.

Josh Katzeff: Got it. And with regard to ship types, we should not preclude Teekay from acquiring VLCCs?

Bruce Chan: Again, it comes down to math and what we would look at. We've always said, though, and we're pretty consistent, we do focus on our core area, which is Aframax, coated Aframax, and Suezmax. We still do believe largely in the correlation of the medium to large size tanker segments. And so it's more around where we have the in-house capability and the pools to really earn more than our peers and indices. And I think we can demonstrate in that our core segments, and in the other segments, we don't have that type of track record.

Josh Katzeff: Got it. And one quick modeling question. I guess we saw the higher SG&A. Can you provide maybe some guidance on a run rate post-acquisition going forward?

Vince Lok: Yes, just as a reminder, in the second quarter, we had 75,000 of one-time transaction costs. So you kind of have to back that out of the second quarter G&A. In terms of Q3 run rate, I think you're looking at about 3.5 million run rate per quarter.

Josh Katzeff: Great. Appreciate the time.

Bruce Chan: Thank you, Josh.

Operator: Thank you. The next question comes from Chris Snyder of Sidoti & Company. Please go ahead.

Chris Snyder: Good afternoon, guys. My question has to do with the increased capacity – refinery capacity coming out of Russia. Can you give me how you guys think this will affect shipping rates as a whole, but more specifically, kind of the voyage length traveled?

Bruce Chan: We kind of blend in all of the – more than just any specific country, but the overall capacity of refining growth in general in the Far East is increasing, forecasted to increase, and capacity, especially on the US East Coast, was forecasted to decline more. It still is forecasted as the older refineries aren't as good at processing the cheaper crude. So it's really such a dynamic refinery and clean space. We do believe there will be more long haul product tanker movements as refineries move to places in the far – in the east, and as evidenced by other changes in the refinery system like in Chevron and Australia announcing recently to shut down a refinery there, which is going to lead to more product movement. So overall, we'd forecast more – or an increase in demand for longer haul product movement.

Chris Snyder: And the shutdown in Australia, the shutdown in refinery, do you guys also expect that to increase the voyage length as well?

Bruce Chan: Yes, it may increase the voyage length for clean. It may just replace the crude that was going – slate that was going to (kernel) before and they're going to turn it into clean storage. So it does depend on what crude has dropped and where the clean has been sourced from, which is uncertain at this time. But in general, usually the clean is sourced from a further distance than where the crude was being sourced.

Chris Snyder: Okay. That's really helpful. Thank you.

Bruce Chan: Thanks.

Operator: Thank you.

Once again, that is star 1 to ask a question.

The next question comes from Ken Hoexter of Merrill Lynch. Please go ahead.

Ken Hoexter: Hey, good afternoon. Just given the rates and thoughts on capacity that you mentioned before, can you talk about what your thoughts are in terms of near-term acquisition? Does this mean you kind of take a break for awhile, or using the capital that you talked about and the available liquidity, do we see something in the near term?

Bruce Chan: Again, as we said to some earlier questions, Ken, if we could time it perfectly, we would wait. Sometimes there's good opportunities, and you have to factor in the fact that you're getting potentially a more – a lower asset price, given the weaker market and still recover from the rebound in the future. So, if we had the perfect crystal ball and knew how to buy assets all right before the upturn, we would. But I don't think current low market precludes us looking at assets now. Again, it's a matter of timing and having potentially more willing sellers in a period of weak markets.

Ken Hoexter: And I guess to back up to that deteriorating environment, you talked a bit about that on your remarks, why the thought to then charter in the capacity? Is it because you knew you could fix those rates, or are you expecting to see the bottom? I just want to understand the thought there.

Bruce Chan: So, Ken, you're referring to the in-charter chip?

Ken Hoexter: Yes, I am.

Bruce Chan: I guess it's because, what it does is, the period of the in-charter is very short, the firm period, relative to the – our ones that we've recently out-chartered. So what it gives us is a kind of a optional upside exposure if the market does rebound strong in the winter, and if it doesn't, it just locked in a hedge spread for a short period of time, and then we would let that charter fall away. So it's really just more of a trading option strategy.

Ken Hoexter: So despite your comments earlier about the deteriorating third quarter, this gets you through the third quarter, and then the option is into more the fourth – first quarter, as you talked about?

Bruce Chan: Exactly.

Ken Hoexter: Okay. Got it. The product market, can you kind of delve into that a bit, what your thoughts are and what you're seeing on the product side?

Bruce Chan: Well, we're seeing – we're mostly focused, as you know, on the longer range LR2 product market. We're seeing is an improvement in rates there because of various factors, primarily due to more NAFTA into the –from the AEG into the Far East. But we're also seeing east/west arbitrage of middle distillates, and we're also seeing what used to be new buildings coming over the yards taking those cargoes east, west. And because there's less new buildings being delivered, particularly in Aframaxes, those are going on LR2s. So we are seeing a little bit of relative strength in that market currently. The other product tanker markets are not very good. They're back down at or below operating cost levels. So we just felt that right now in the short term, we are benefiting from being in the LR2 market and particularly, Teekay Tankers participating in the (Toros) tanker pool now that it owns three LR2s.

Ken Hoexter: Great. Appreciate the insight. Thank you.

Bruce Chan: Thanks, Ken.

Operator: Thank you.

Again, that is star 1 to ask a question.

There are no further questions at this time. I will turn the conference back to Mr. Chan.

Bruce Chan: Thanks, Michelle. And thanks, everyone, for joining us today.

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

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