TEEKAY TANKERS LTD.

Moderator: Corina Schnell
August 4, 2016
12:00 pm CT

Operator: Welcome to Teekay Tankers Limited Second Quarter 2016 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'd like to turn the call over to Mr. Kevin MacKay, Teekay Tankers Limited Chief Executive Officer. Please go ahead sir.

(Ryan): Before Mr. MacKay begins I'd like to direct all participants to our website at www.teekaytankers.com where you will find a copy of the second quarter 2016 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 statement. Actual results may differ materially from results projected by those forward-looking statements.

Additional information concerning factors that cause actual results to material differ from those in the forward-looking statements is continued in the second quarter 2016 earnings release and our presentation available on our web site. And now I'll 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 are Vince Lok, Teekay Tanker's Chief Financial Officer and Christian Waldegrave, head of Strategy and Research at Teekay Corp.

During today's call, I will be taking you through Teekay Tankers Second Quarter 2016 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 $31.6 million or $.20 per share in the second quarter of 2016 compared to adjusted net income of $41.3 million or $.35 per share in the same period of the prior year.

We generated free cash flow of $59.6 million during the quarter compared to $57.9 million in the same period of prior year. Our results for the quarter were lower primarily due to lower average spot tanker rates compared to the same period of the prior year partially offset by an increase in our fleet size as a result of the acquisition of 19 midsize tankers during 2015.

In accordance with our variable dividend policy, Teekay Tankers delivered a dividend of $.06 per share for the second quarter representing a payout of 30% of adjusted net income which is consistent with the previous quarter. The dividend will be paid on August 19, 2016 to all shareholders of record as of August 15, 2016.

In June, Teekay Tankers agreed to sell one of its noncore MR product tankers for proceeds of $14 million which when combined with cash flow generated during the quarter, is expected to further deliver our balance sheet to 51% on a net debt to book capitalization basis. We've also continued to manage our fleet employment mix using a variety of levers.

Over the last few months, we have secured four new term charters increasing our fixed rate cover to approximately 30% over the next 12 months which I will discuss in further detail in the next slide. Turning to slide 4, we look at developments in the crude tankers spot market.

As shown on the charts on the slide, midsize tankers spot rates declined during the second quarter of 2016 and have continued to soften into the early part of the third quarter; however, it should be noted that rates in the first half of the year have been above the five-year average and are well above the lows seen in the period 2011 to 2013.

The declining rates during the second and third quarters is in line with normal seasonal patterns though a number of factors have served to exacerbate the weakness in midsize tankers in recent weeks. Firstly, supply outages in the Atlantic Basin have reduced cargo availability for both Aframaxes and Suezmaxes.

Repeated attacks in all infrastructure in Nigeria and reduced output in Latin America due to the impact of low oil prices have reduced Atlantic supply by around 700,000 barrels per day since the start of the year which is the equivalent of one fewer Aframax cargo per day.

Atlantic supply outages were particularly acute in July with around 20 fewer Suezmax cargos from West Africa and around 20 fewer Aframax cargos in the U.S. Gulf Caribbean region compared to the average cargo count seen in the first half of the year. Secondly, high global oil inventories have weighed on refining margins and led to a decline in refinery throughput which has been negative for crude tanker ((inaudible)).

According to the AEA, global refinery throughput registered a year on year decline during Q2 for the first time in three years. Although rates are trending lower during the summer months, we expect an uptick during the fourth quarter as we have seen in previous years.

Stronger oil demand during another hemisphere winter and an increase in weather delays will act as catalysts for this uptick while ongoing low oil prices should continue to be positive for both global oil consumption and stockpiling during the second half of the year.

In recent months, Teekay Tankers has taken several steps to mitigate this softer rate environment and maximize earnings through a weaker point in the cycle. Firstly, we have concluded three new out charters comprising one Suezmax and two Aframaxes as well as the tank charter swap agreement which effectively provides a fixed charter rate on approximately one Aframax best equivalent also at attractive rates.

Secondly, we have increased our fixed rate lightering coverage for our U.S. Gulf lightering business which we're continuing to expand. Using these various commercial levers, we have increased our fixed rate coverage in the next 12 months to approximately 30% -- up from 21% in the same period last year.

Turning to slide 5, we take a look at medium term tanker slide fundamentals. As shown by the chart on the left of this slide, the latter half of 2016 and 2017 are set to see an increase in midsize tanker deliveries as ships ordered in the past two to three years deliver into the market.

Together with a potential rebalancing of global oil markets, this would suggest the challenging outlook for 2017; however, as the graph on the right illustrates, the lack of scrapping ensuring the strong rate environment over the last two years has built up a significant number of older ships that will face increasing marginalization in their trading patterns as they age.

In addition, they will have to confront challenging capital cost demands to pass expenses special surveys as well as the potential significant expense of new equipment to comply with balance order treatment regulations. In a softer market, we therefore anticipate an increase in vessel scrapping, thus helping to mitigate the impact of the order book that delivers in the next two years.

Looking ahead beyond 2017, the order book for vessel deliveries in 2018 and 2019 is currently very light due to low levels of tanker ordering so far this year. In fact, 2016 is on track for the lowest level of new tanker orders since the mid-1990s.

With the access to new capital remaining a challenge and potential for some rationalization of shipyard capacity in the months ahead, we view this as positive for long-term tanker supply fundamentals sowing the seeds for another uptick in the tanker market once the current order book has been absorbed. I will now turn it over to Vince to discuss the financial portion of the presentation.

Vince Lok: Thanks Kevin and good morning everyone. On slide 6 I will discuss our financial priorities. Our focus remains on generating total shareholder returns through strong cash flows to both deliver our balance sheet and return cash to shareholders through our variable dividend policy.

As Kevin noted earlier, for the second quarter of 2016 Teekay Tankers declared a cash dividend of $.06 per share which appoints to approximately 30% of our adjusted net income for the quarter. A graph on the left side of the slide shows our projected free cash flow yield and dividend yield for a range of Aframax spot TCE's based on an assumed dividend payout of 30% of adjusted net income and a share price of $3.00 per share.

Even based on relatively low spot TCE rates, the company is expected to generate healthy cash flows over the next 12 months which would provide an attractive cash dividend and further delivering of our balance sheet. The graph on the right-hand side of the slide highlights the strengthening of Teekay Tankers balance sheet since the fourth quarter of 2013 and further potential reductions in leverage that could result at different projected spot of rate assumptions over the next 12 months.

Assuming we maintain our current 30% of adjusted net income dividend payout ratio, Teekay Tankers leverage is projected to decrease to between 39% to 45% by the end of the second quarter of 2017 assuming that we realize that Aframax spot TCE rates between $20,000 a day and a $30,000 per day.

Using our cash flows generated to further de-lever our balance sheet remains a top focus as it enhances our net asset value and provides Teekay Tankers with future financial flexibility. I will now turn the call back to Kevin to conclude.

Kevin MacKay: Turning to slide 7, I'll wrap up with a update on spot tanker rates this third quarter of 2016 to date. Although spot rates have been under decline quarter on quarter, seasonal demand and weather delays are expected to provide support to rates in the fourth quarter of 2016.

Based on approximately 45% and 39% of spot revenues days booked, Teekay Tankers third quarter to date Suezmax and Aframax bookings have so far averaged approximately $23,600 and $17,900 per day respectively.

For our LR2 segment with approximately 40% spot revenue days booked, third quarter to date bookings have averaged approximately $18,100 per day. In closing, although we expect some weakness in the near term, Teekay Tankers is taking the appropriate steps to increase its fixed rate cover by locking in cash flows thereby reducing our cash flow breakeven TCE.

As a result, we expect our fleet to continue to generate ((inaudible)) cash flows which will enable further strengthening of our balance sheet and support for our dividend. With that Operator, we'll now turn it over to take questions.

Operator: Thank you. So ladies and gentlemen if you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. First question comes from John Chappell from Evercore ISI. Please go ahead.

John Chappell: Good morning Vince.

Vince Lok: Hi John.

John Chappell: Vince, you're pretty clear on the financial plans for the next couple quarters so I'm going to focus my questions on the operational side. First of all, Kevin, is it possible to explain the dynamics of that TC swap agreement that you agree to this quarter for the Aframax and also was that kind of a one off or are there other opportunities like that available?

Kevin MacKay: It is a unique deal that was done that you don't typically find readily available. It's something our commercial teams have worked hard to try and develop with various counterparties. Having said that, it's essentially a swap agreement where we get a fixed charter higher on a monthly pay - on a monthly basis paid in advance reconciled against how the spot market performs.

Now it did take us several months to actual work the actual mechanics of the deal with our counterparty and as such the - we're quite pleased because it was done at a time when rates were higher than they are today so the differential between our charter higher and our spot rates are today has been very lucrative.

John Chappell: Is that swap agreement reflected in the appendix sheet with the fleet of employment profile -- the one of those Aframaxes?

Kevin MacKay: Yes, it is.

John Chappell: Do you mind identifying which one just so we have an idea for what the rate was on that particular...?

Kevin MacKay: Yes, it's the fourth one down on the list.

John Chappell: Okay. Very helpful, thanks. And then also, you know, we're kind of in this interesting period right now where the, you know, seasonal weakness that exacerbated, I think, from some global macro headwinds but you spoke about your views on the fourth quarter getting better, you spoken about post-2017 the supply and demands sets up really well, which we agree with, so then just wondering how you're trying to position the fleet there from there?

Would you look to do even more time charter out maybe get closer to a 50% than maybe TNK had historically had in the first few years of its existence? And then how do you kind of view the time charter in as this is well something you're going to pull back from at the moment or, you know, the current weakness it's presenting opportunities where you could even increase your operating leverage given the optimistic view on the market going forward?

Kevin MacKay: I think overall, John, you know, we started out the year with a goal internally to reach roughly 30% cover for the year and then reassess where the markets where at that point. You know, you can't go out and just pick time charters, you know, as when you want them. You have to look at what's available and what you're being offered relative to what your forward view of the market is.

You know, I think looking at - that our view if we could get lucrative tank charters that - if we can lock in some additional cash flow, yes, I think we would certainly entertain that, but it's also, you know, I've spoken in the past about TNK looking at various levers that we can pull and different types of commercial deals that we can do to manage our exposure and at this point in cycle our investment in the lightering business is something that I'm excited about and it's another avenue that we have access to lock in cash flow at reasonable returns that other owners don't have access to.

So that's another lever that we can pull and I, you know, going forward in terms of in charter portfolio, that's very much a trading book that we look at and it's based on individual opportunities that we see coming along so you may see us take cover if we think we can get deals done with mechanics that give us an attractive return relative to our forward view.

John Chappell: Got it. And just a quick follow-up and then I'll turn it over. Can you just speak to what the time charter market looks like as far as both liquidity and availably of time charters but also the rates as you kind of put them against today's spot market? I mean, obviously, I think we would agree that today's spot market is somewhat artificially low, but if the time charter rates have come down closer to those levels that may present more of an opportunity than a risk.

Kevin MacKay: Yes, I think, you know, you never or I would never look at a time charter market in the debts of the summer doldrums. You've got to look at what you think the markets are going to be over the next 12 or 24 or 36 months of the year you're looking to put tonnage away on, but I think, obviously, it's tracked down during the course of the year and that's why, you know, it - the backend of last year we went out and, you know, part of our coverage strategy was going out at - when rates were high prior to December and locking into three time charters for three years just to secure that baseline income.

John Chappell: Got it. All right, it's very helpful. Thanks Kevin.

Kevin MacKay: All right. Thanks John.

Operator: Thank you. And ladies and gentlemen if you find that your question has been answered you may remove yourself from the queue by pressing star 2. The next question comes from Mike Webber from Wells Fargo. Please go ahead.

Mike Webber: Thank you. Good morning guys. How are you?

Kevin MacKay: Good morning Mike.

Mike Webber: Vince, I've just got one for you to start - and then Kevin - and then I'll transition to some operating stuff. But Vince around the dividends, obviously, kind of came in the lower end of, you know, kind of the range you guys toss out in terms of kind of soft guidance. I'm curious as to what we should expect that on a go-forward basis.

I would suspect probably from there towards that 30 from 38% last quarter to 30% this quarter so I would imagine so more in that range. But correct me if I'm wrong - and then maybe more broadly when you think about the dividend there given the landscape and what Kevin just went through.

Can you kind of compare and ((inaudible)) for us how you think about it differently now or similarly now compared to this time last cycle which there was ultimately a cut to the dividend. Just be helpful to kind of get - to kind of this kind of cycle versus last cycle kind of a view from you in terms of where the balance stands now and versus and where the market - but the market outlook look - looks like now versus last cycle?

Kevin MacKay: Sure. First of all, on the dividend range it's consistent with what we communicated last quarter which is over the near term we expect to be paying out at the lower end of the range which is the 30% and we did last quarter and this quarter and, again, over the next few quarters we would expect to be around that level as well because of our desire to continue to de-lever the balance sheets and that's going to be one of our main focus areas .

We think it's important especially, you know, in the ((inaudible)) environment that we have a strong balance sheet to maintain financial flexibility so that's what we should expect going forward. In terms of the cycle, you know, I think we're in a very good position as we sit right now. I mean, if you look back when we originally ((inaudible)) the company we had a much higher dividend payout -- it was a full payout -- that ultimately wasn't sustainable when we hit the low point in the market and so therefore we moved to a fixed dividend.

The current dividend policy is much more conservative at 30% to 50% of net income with a minimum of $.03 per quarter and I think when you look at the market outlook as Kevin articulated, we do some weakness in 2017 but then given the lack of new orders in the market it's a bit of an uplift and we expect the market to rebound back in 2018 so it's a relatively short period of weakness if we see something there so I think that puts us in a good positon to maintain our current dividend policy through this period.

Mike Webber: Okay. Thank you Vince. I appreciate that. And then Kevin just kind of piggy back on that, you know, Vince mentioned and then you talked about prepared remarks maybe you expect some weakness obviously, seasonally now and then, you know, in 2017.

Inventory draws and kind of seasonal weakness aside - can you maybe kind of parse out how much of that expected weakness comes from maybe kind of just ((inaudible)) within global trade flows and inventories versus maybe a leg down in crude demands, you know, relatively to say kind of the EIA or the pirate number -- any - kind of within that range of kind of 1.3 to 2 million barrels a day. How much of that softness in 2017are you expecting comes from just softer demand?

Kevin MacKay: I'm actually on a macro level, Mike. I'm more focused on the supply side than I am on the demand changes. I think global oil demand is growing. It will fluctuate, you know, throughout the course of the year, but I don't think the issue going forward is going to be necessarily demand. You know, economies around the world seem to be taking a long - not a hugely robust pace, but sufficient to keep demand growing.

Gasoline demand is going up globally. I think the issue that we'll be facing is vessel supply and entry overhang specifically in the product sector which drives refining throughput so I think we might have to go through a period of, you know, some rationalization on inventories, but the underlying strength of demand shooting into those inventories fairly quickly. And then, obviously, we've got to deal with an uptick albeit short in the - in the new supply ships are coming out.

Mike Webber: Okay. That's helpful. Thanks for the time guys.

Kevin MacKay: Thanks Mike.

Operator: Thank you. The next question comes from Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, hi guys and thank you. I want to ask you about the ((inaudible)) over the last few weeks. We have seen the spreads rising significantly yet the charter markets has not moved at all. Do you see any requests for floating stores given the fact that the rates right now are so low and that could potentially be that means what the trade are said they can find profitable to chart the rest of the flow for us?

Kevin MacKay: Hi Fotis. No, we're just talking to the ((inaudible)) now -- the chartering debts. We haven't seen a lot of inquiry directly for floating storage. What we are seeing is a tendency to ask for storage on the back of a voyage so the option to extend the discharge time or the delay going into a discharge port, but it's fairly short-term and it's not specific to one trade or one region at the moment. And Chris, do you want to add anything on the ((inaudible)) structure, or...?

Chris: Yes, I think it's become more and then it was months now given that the freight rates have climbed down and so they obviously bring the dollars per barrel for months down. I think on a VOCC now you probably the break even on a ((inaudible)) they would be about $.65 per barrel per month. The Contango is not quite there to do it, but I think it's getting close so it's definitely something that could emerge in the second half of the year, but like Kevin said, we're not seeing any serving inquiries for it yet.

Fotis Giannakoulis: Thank you. I also want to ask about the product inventories so that they seem that both have increased significantly both in the OECD and also in China. How do you expect this to affect the tanker market both for the product trade with a potential export of this products but also for the demand for crew primarily from China?

Kevin MacKay: I think generally speaking as I said to Mike earlier Fotis if, you know, we're going into a period where the product oil inventories are relatively high compared with historic norms. That does put pressure on crude supplies refiners work off that backlog so I think in the short-term -- which is what we're seeing right now -- you're seeing a drop in demand for crude oil as refining margins weaken and refiners use inventory on hand to meet their needs.

But I think the underlying fundamental is that based demand for certainly gasoline jet fuel is growing as more people travel, more people are driving cars. I read somewhere yesterday that 60% of new car sales in the U.S. is SUV's and light trucks -- so that bodes well for the demand structure which is think will, obviously, help to absorb some of this overbuild that refiners have produced based on high margins they had earlier in the year.

Fotis Giannakoulis: And I want to focus also on the sale of this - of the 1 MR. You still have another MR in your fleet in summer lot of vessels. Is it the focus of the company going to increase on the crude tanker space and gradually exiting the product tanker or is it just a((inaudible)) non-core business and how do you view the to the relative performance between product carriers and crude carriers both in terms of rate development, but also in terms of returns given the - where the asset prices are in the two segments?

Kevin MacKay: Yes, I think the sale of the MR as we put in the release in our remarks is it's not a core of midsize tanker for Teekay Tankers and we want to concentrate on our Suezmax and Aframax two segments so we will look to offload the additional MR that we have because it's not a trade that we feel can grow scale in or that we want to focus on. Ian terms of the relative balance between, you know, product returns and crude returns, you know, at the moment we're seeing the ((inaudible)) market outperform the ((inaudible)).

Earlier in the year, it was the other way around and that's one of the things we do like about our LR2 purchases that we made late 2014, early 205. The LR2 vessel gives us that flexibility to trade in and out of a different markets over periods of time and we're very pleased with those purchase because to date we've been able to take advantage of stakes in both sets of markets as when they come.

Fotis Giannakoulis: Thank you very much.

Kevin MacKay: Thanks Fotis.

Operator: Thank you. The next question comes from Amit Mehrotra from Deutsche Bank. Please go ahead.

Amit Mehrotra: Hey, thanks for taking my question gentlemen. Just had a couple of quick ones. One, just wanted to get an update on where you think the break-even levels are. I mean, I took a look at, obviously, the cost profile in the first half excluding some of the, you know, maybe the non-recurring items and if you annualize that it looks like the break evens are around $22,000 per day on a cash basis and around $28,000 a day on a net income basis. Just wanted to see if you can add some color to that or, you know, just provide those numbers?

Vince Lok: Hi Amit. Yes, those numbers are obviously changing a little bit as our fleet (nix) changes, you know, with some new out charters and some in charters coming out. If you look at a cash break-even -- which is OPEX, you know, within charters and G&A and interest expense -- were roughly around $10,000 a day -- so a very low break even.

Ensure to add, you know, debt amortization to that. That would add, roughly, about $10,000. So, you're looking all in is about $20,000 cash flow break even on an Aframax equivalent basis.

Amit Mehrotra: Right, and so $25,000 to $30,000 on a net income basis, right?

Vince Lok: That sounds - on an Aframax basis that sounds high, actually.

Amit Mehrotra: I'm just talking on a real basis in terms of what you guys actually, you know, I mean, and I'm sorry if I'm trying to overcomplicate this question, but I'm just trying to understand because your dividend is tied to your net income and so what I'm trying to understand is at what point do dividends disappear at on an average rate basis?

Vince Lok: Okay. Well, first of all, our dividend policy has a minimum dividend of $.03 per share per quarter and so it's our dividend wouldn't drop below the $.03. But your question is, where does it sort of cross when we hit that floor? On an Aframax equivalent basis, it's probably in the high teen's at that level.

Amit Mehrotra: Okay. Okay, thanks. And then, one more, if I could with respect to the increased coverage relative to where it was at this point over the last couple of years. You know, I know, you know, if you sort of look at the seasonal movements this year and compare that to, I guess, it's not really fair to compare it to last years what I'd term as kind of a super cycle, but if you look at, you know, this year's seasonal movements relative to history and then sort of overlay on that some, you know, exogenous factors, disruption, things like that, it doesn't seem like, you know, where it overlay, overlay, you know...

Kevin MacKay: Yes.

Amit Mehrotra: ...bearish level and so I'm just trying to foot, you know, what may not be that weak of a market then what sentiment would suggest and if you sort of adjust all those factors versus sort of the increase in coverage I'm just trying to understand if, you know, Kevin your view of the market has moderated over the last three months because nothing has really changed and is it just really the decline in the rates you have been so severe that maybe you're starting to question your own conviction. Just, if you could offer more color on that?

Kevin MacKay: Yes, sure. You know, I think sort of alluded to it in one of the previous questions. Our time charter approach or our coverage approach isn't something that we start to worry about when rates come off. It's something that we look at on a monthly basis in high markets and low markets and, you know, starting last year when rates were nice and high going into the fourth quarter we were able to secure some long-term attractive tank charter cover with some strategic customers.

You know, going into this year we wanted to increase some of the shorter term cover. You know, we - we're being realistic. We did see an increase in the supply of tanks coming in late 2016 and 2017 and our strategy then was to put some more ((inaudible)) on the coverage pile as opposed to the sport exposed pile.

But it's something that we monitor very closely on an ongoing basis. Not panicking when rates drop and not getting overly excited when rates get too high. It's managing the portfolio through the cycle and it's trying to make sure that when we look at individual deals we weight against what we feel are the risks on the forward 12 months or 24 months versus the overall exposure of the fleet and that percentage number will shift as we go through the cycle.

Amit Mehrotra: Okay, great. And one quick one from me in terms of the earlier question comparing and constraining the crude with the product tanker market. You know, when the product tanker market was quite strong last year -- specifically, the LR2's -- you know, from my understanding it's somewhat easier, you know, it's easier for an LR2 to, you know, because Aframax to go to trade in the Prague market and, obviously, to come back it's a lot harder and did you see a lot of that happening last year and, you know, just how should we think about if those two markets get fairly out of whack with each other over the next 12 to 18 months if that happens? What can we expect in terms of how those ships trade?

Kevin MacKay: Yes, if you compared the returns on the two different classes, obviously, you know even take into account the spike you see on product rates last, I think it was last, third quarter. Overall, the crude tankers have outperformed. So I think, you - you know, one of the insights that we get running a pool of ships, we do see other owners input into trading between clean and dirty. Teekay takes the approach of using operational expertise to manage those bits and curves in the various markets to maximize our returns.

Other owners tend to look at their ships as or their investment in an LR2 as being tied solely to the product sector so different owners bring a different approach to whether they dirty up their ship or keep them clean. Some remain very adamant that they are clean players. You know, eventually, I think some company - the assessment that they need higher returns and they swapped them over to the crude market if that's the one that consistently their performs.

Amit Mehrotra: Right. I guess it's a fluid issue, no pun intended. But I appreciate the answers, thanks guys.

Kevin MacKay: Thanks Amit.

Operator: Thank you. The next question comes from John Humphreys from Banc of America Merrill Lynch. Please go ahead.

John Humphreys: Hi, good morning gentlemen. How are you?

(Crosstalk)

John Humphreys: I just wanted to go into the other revenue line as to over $10 million this quarter this ship to ship transfer revenue. If you could sort of walk me through it, that's a good run rate going forward and kind of the dynamics there and what you see going forward.

Vince Lok: Yes, you're right, most of that is relating to ship to ship transfer lettering business. And I don't know, Kevin, if you want to comment going forward?

Kevin MacKay: Yes, I think one of the reasons that we looked at buying the TMS TK Marine Solutions business is that relative consistency of return from the various businesses that they're involved in. You know, there will be some seasonal changes within the segments today they operate in, but our forward view is that should be a fairly consistent fund rate.

John Humphreys: Great. Thank you. And then the next one, you touch on this a little bit earlier where you hope to see the seasonal lift in fourth quarter and first quarter to offset the oncoming deliveries. If I just look at last year's Suezmax rates, could you just give me a little more clarity on where basically how much you think weather and the seasonal lift could offset delivery? Should we be, I mean, are we looking at, you know, 15 rates, 14 just to get an idea of where you expect the spot markets to be?

Kevin MacKay: No, I - we don't or I wouldn't try to suggest a fixed number of where we think the rates are going to be. There's so many variables that come into the market that can either drive rates to either climb higher or not sustain where we saw rates come in last year.

I think on a macro level we have to look at where supply and demand is. Demand, I think, will pick up. You have the seasonal factors that eat into supply of tonnage -- i.e. weather delays which cause congestion, increase or decrease daily operating hours coming in and out of ports. That all sucks up supply.

How you match that relevant to the volume of ships coming in, you'd have to factor in how many ships -- the crude ships -- that come out of a shipyard and decide to trade on a clean cargo first as opposed to a crude cargo. There's too many variables to actually pick a projected PCE for any specific months in the cycle.

Kevin MacKay: But we do tend to look at is trends and, you know, if you go back historically the increased demand for the Northern Hemisphere winter and all the associated changes in the logistics, efficiency of the system all tend to come into play in the fourth quarter and the first quarter and that what gives us a boost in rates.

John Humphreys: Okay. Thank you very much. And then the last one just being the - your 50% ownership in the VOCC. It looks like you had a $1.5 million profit sharing recognized given the weakness in the VOCC spot right now. It seems as though we'd expect that to go away. If you give me sort of any clarity on where you see that equity income line going in the third and fourth quarter?

Kevin MacKay: Yes, I think we've got a based rate on that batch of, I guess, 40,000 - sorry, 37,500 a day so if you look at where VOCC rates have been over the last few weeks and are projected to be in the next few weeks, obviously, that's going to be below that number so I don't think we'll see a repeat of the $1.5 million that we saw last quarter.

But as we've said, the fourth quarter we do expect to pick up and that number, hopefully, could return or even be higher.

Vince Lok: And just to clarify that profit share is actually recognized every six months as opposed to every quarter so the next fund would be - if we see any profit share, it will be in the fourth quarter.

John Humphreys: Great. I appreciate that clarity. That's it for me. Thank you very much.

Kevin MacKay: Thanks John.

Operator: Thank you. The next one comes from Magnus Fyhr from Seaport Global. Please go ahead.

Magnus Fyhr: Yes, hi guys. Most of my questions have been answered, but I just had one question on the chartered in vessels. You mentioned, you know, you've seen good performance on LR2's during the quarter. I think you have one ship that's expiring in August that's still on the fleet list. What's your thinking on the LR2 market and to have that to, I guess, extend that charter or as an option to do so?

Kevin MacKay: No, I think, we're - our view on that vessel is we're going to return it at the end of its current period. The other LR2 that we have is booked against an out charter and is covered - locked in at a good return for us, so at the moment our focus is really around what we're doing with our fleet. We haven't, as yet, seen a good opportunity to take in some additional tonnage albeit Aframax or our LL2's. I think the summer doldrums have kicked in a little people are out of the market. I think we'll wait until probably later in the year before we'll start seeing an uptick in that sort of opportunity.

Magnus Fyhr: Okay. Thank you.

Kevin MacKay: Thanks Magnus.

Operator: Thank you. The next question comes from Noah Parquette from JP Morgan. Please go ahead.

Noah Parquette: Hey, guys. I wanted to ask on slide 5 you have that nice chart with ((inaudible)) 15 years offsetting the order book. You talk a little bit about, you know, what situation, you know, we need to see them to get that average age scrap down below significantly 20 years? I mean, you know, the common theme I'm hearing from you guys -- and it's somewhat to some of your competitors -- is that this downturn is going to be short click and, you know, what needs to change in terms of sentiment for that scrap and delivery pickup?

Kevin MacKay: It comes down to costs relative to return. A lot of these ships are past their 15-year mark. They're looking at docking surveys every 2.5 years. And depending on the condition of the ships typically a fair amount of steel work and CAPEX associated with that. I think, you know, in addition to that we've got balance water treatment that, you know, granted to date has been pushed back.

It should come into force in the, you know, not too distance future and that is a significant additional expense the owners are going to have to face, so I think that will depend on where the markets at as in when these owners face these cash crunches and whether they're dry bolt segment is in line and the ability to invest in the tanker fleet at that age.

But I think you also will see marginalization of older tonnage. You know, in a softer rate environment, charter is typically get a lot pickier about the age profile of the fleet they have on the water carrying their oil and as such idle time waiting days all increased for owners with older tonnage which drops their return, you know, significantly below what you and I see as an average spot market.

Noah Parquette: Okay, and then to that point you have a number of ships in your fleet that are a that age level of approaching it. How you think about those ((inaudible)) the next couple of years?

Kevin MacKay: Yes, we've assessed those vessels. Obviously, we've had those three ships since they were built. We've taken good care of them over the life of those assets and we don't feel that our capital exposure going into a dried up those ships will be too significant so we're comfortable to hold onto them and in the near-term and that's why we kept them that they're so special but it's something that we evaluate ongoing.

It'll be something that we evaluate again when it comes time to dry dock them for their intermediate. It's not a given that once the fast one dry docking that doesn't madly keep them through the next one.

Noah Parquette: Okay. And then just kind of a modeling question really quick and your balance sheet the accounts receivable, in particular, grown quite a bit last couple of quarters due from ((inaudible)) somewhat ((inaudible)). Is that - can you just tell me what's driving that? If that's going to stay at that level or is that a source of cash eventually on the first?

(Brian Forcace): Oh, hi Noah, it's (Brian Forcace) ((inaudible)). On the accounts receivable line that increasing June compared to March. Is almost entirely an insurance receivable related to the vessel that was involved in a grounding incident and there's a similar increase in accounts payable at this quarter.

On the - from affiliates lying, the increased compares - June compared to March is almost entirely the timing of intercompany settlements. Settlements that we receive to buy that balance back down to March levels. I guess just to point out that most of that remaining balance -- that run rate balance -- represents working capital as the answers provided are various pooling arrangements and as our fleet size has grown over the past year or so and that kind of resulted in a number of vessels that we have in pools, has increased the average balance of ((inaudible)) account has grown compared to the same periods last year and we get those working capital advances back when our vessels leave the pools.

Noah Parquette: Okay. And just really quick. Can you say how much of your LL2 fleet is trading crude versus product?

Kevin MacKay: Yes, it - on our own fleet basis we have six out of the seven ships that we own are currently trading crude. I'm not sure on a full basis what that number is. I can check and get back to you on that.

Noah Parquette: All right, that's very helpful. All right, thank you.

Operator: Thank you. So this concludes today's question-and-answer session. Mr. MacKay I'd like to turn the conference back over to you for any additional or closing remarks.

Kevin MacKay: Well, thank you very much for listening in and we look forward to talking to you again next quarter. Thanks very much.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation.

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