TANKER INVESTMENTS LTD.

Moderator: Emily Yee
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Operator: Welcome to the Tanker Investments Ltd. 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, participant will ask to press star one to register for a question. For assistance during the call, please press star zero on your touch-tone phone. As a reminder, today's call is being recorded. Now for opening remarks and introductions I would like to turn the call over to Mr. William Hung, Tanker Investment Ltd.'s President and Chief Executive Officer. Please go ahead.

Scott Gayton: Before Mr. Hung begins, I would like to direct all participants to our Web site at www.tankerinvestments.com where you will find a copy of the second quarter of 2016 earnings presentation. Mr. Hung and I will review this presentation during today's conference call. As a reminder, this presentation contains forward looking statements. Additional information on those forward looking statements is contained in the second quarter of 2016 earnings release and earnings presentation available on our Web site. I will now turn the call over to Mr. Hung to begin.

William Hung: Thank you Scott. Hello everyone and thank you for joining us today for Tanker Investment's Second Quarter 2016 earnings call. I am here today with Scott Gayton, Tanker Investment's Chief Financial Officer. And for the Q&A session, we have Brock Wlad Director of Group Reporting for Teekay Corporation.

During today's call, I will be taking you through Tanker Investment's second quarter of 2016 earnings presentation which can be found on our Web site. Beginning with our recent highlights on slide three of the presentation, we reported net income of $12.6 million or 41 cents per share and generated cash flow from vessels operations or CFEO of $27.1 million, all of which are down from last quarter due to weaker tanker rates. We have booked between 35% to 45% of our fleet days at the rates indicated in the chart on slide three and while these rates are down from last quarter they are above rates today as I will discuss later.

During last quarter's earnings call, we discussed the disconnect between the tanker markets and Tanker Investment's strategy and as I will detail later we are now pivoting our strategy from one that was primarily focused on selling our fleet to now operating our vessels in the most efficient manner possible while waiting for asset values to improve before disposing of the fleet. We do not believe current asset values adequately reflect the cash flow we expect to generate over the medium term. And as a consequence, have opted to temporarily adjust our strategy. And at the end of the presentation, Scott will walk through our strong financial position and why we feel our current equity valuation is priced for an extremely weak tanker market that we do not believe will come to fruition based on the medium term tanker market fundamentals.

Turning to slide four, we look at recent changes in Tanker asset values. As shown by the charts on this slide, asset values from modern mid-sized tankers have declined by around 20% since the start of the year. However, it is worth nothing that while asset prices have declined they are still well above the lows we saw in late 2013 and early 2014 when TIL started acquiring vessels. The decline in asset values during 2016 have been driven by two main factors. Firstly, potential buyers have been ((inaudible)) by the tight credit conditions for the shipping sector and hence the bid app spread has remained wide. The result has been a significant decrease in volumes of modern second hand transactions.

Secondly, negative market sentiments have impacted prices as many investors fear that we are facing a multiyear downturn similar to the one that followed the financial crisis and which concluded in mid-2014. As we shall outline later in the presentation, we do not believe we are facing such a prolonged downturn. Nevertheless, this negative sentiment is serving as a drag on asset prices. For this reason, Tanker Investments does not see the value in selling assets at these low prices. Rather, we are working towards maximizing earnings through the current market cycle with a view of selling assets once prices recover during the next upturn.

Turning to slide five, we look at seasonal trends in the tanker spot market. As shown by the charts on the slide, the midsize tanker spot rates declined during the second quarter of 2016 and have continued to soften into the early parts of the third quarter. However, rates in the first half of the year have been above the five year average and are well above the lows seen in 2011 and 2013. The decline in rates during the second and third quarters is consistent with normal seasonal patterns though a number of factors have served to exasperate the downturns for midsized tankers in the recent weeks.

First, supply outages in the Atlantic Basin have reduced cargo availability for both after max and Suez max. Repeated attacks on oil infrastructure in Nigeria and lower 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 equivalent to one fewer after max cargo per day.

Secondly, high global oil inventories have weighed on refining margins leading to a decline in refining throughput. According to IEA, global refining throughput registered a year on year decline during Q2 for the first time in three years. And lastly, both China and Japan are preparing for a heavier refine ((inaudible)) program from August to October 2016. China is expected to have 1.2 million barrels per day offline in August and 800,000 barrels per day offline in September. Japan is expected to go offline by 600,000 barrels per day in late September into early October as well.

Although rates are trending lower during the summer months, we do expect an uptick during the fourth quarter in line with previous years. Strong oil demand during the northern hemisphere winter and an increase in weather delays will be the catalyst for this uptick. In addition, the potential return of Atlantic supply volumes, the positive impact of low oil prices on crude imports and Asian refineries coming back online should all be a positive factor for tanker demand in Q4.

Turning to slide six, we take a look at medium term tanker supply fundamentals. The outlook for 2017 appears challenging due to the accelerating fleet growth and potential rebalancing of the global oil markets. However, we do not expect the next downturn to be as severe or long lasting as the one that followed the year of the Global Financial Crisis which is highlighted by the positive fleet fundamentals beyond 2017.

As shown by the slide, 2016 and 2017 are set to see an increase in midsize tanker deliveries as shifts ordered in the past two to three years deliver into the market. However, this needs to be held against the fleets of older vessels which will be discriminated by all majors as they reach 15 years of age and may be scrapped as they approach costly special surveys. The current order book is roughly the same size as the fleet of ships aged 15 years or older. This should help mitigate the impact of the order book as it delivers over the next two years. Looking beyond 2017s, the order book for vessel deliveries in 2018 and ‘19 is currently very light due to low levels of tanker ordering during recent months. In fact, 2016 is on track to be the lowest level of new tanker orders since the mid-1990s.

Furthermore, a lack of scrapping in recent years has led to a buildup of the late 1990s and early 2000 built vessels which will be scrapping candidates in the coming years, especially as new regulations come into force resulting in more costly special surveys due to the extra cap X of installing balance water treatment systems. The combination of small order book with an aging fleet should help keep net tanker fleet growth low beyond 2017, showing the fees for another uptick in the tanker market once the current order book has been absorbed and the old markets normalize after a period of rebalancing.

Turning now to slide seven, we highlight our updated strategy as we look to navigate through a softer period in the tanker market cycle. As noted earlier, we believe that asset values have fallen to the point where vessel sales are no longer an attractive option. We therefore need to adjust our strategy in order to maximize shareholder value during the next 18 months before an expected recovery in fundamentals from 2018 and onwards. Our operating strategy has five key points.

Firstly, we are refocused as a pure midsized player following the sale of our two VLCTs earlier in the year. Secondly, all our spot trading vessels operate within the Teekay Tankers RFA. This allows us to enjoy the economies of scale which comes with operating in a larger fleet while our modern vessels also benefit from high pool points. Thirdly, we are actively pursuing time charters for our vessels that will carry us through the spot market in 2017.

Fourthly, we will look to maintain our strong financial position through the next down cycle. TIL has an attractive debt profile, strong liquidity, and low cap X with only two dry dockings in 2017 and no dry dockings in 2016 or 2018, which collectively means we can maintain our strong financial position despite the softening freight market. Finally, our lean management structure coupled with economies of scale gained from operating as part of the Teekay system gives us a very cost efficient stronger. This will result in a continued low break evens for TIL fleet meaning that we are well positioned to ride out the down part of the cycle. I will now turn the call over to Scott.

Scott Gayton: Thank you Will. Turning to slide eight, we believe Tanker Investments is financially well positioned for the pivoting of our strategy Will just reviewed. We are in a strong financial position with $112.7 million available liquidity of which $87.7 million is readily available and we have a conservative leveraged position at 45% on a book capitalization basis. However, on a fair market value basis given the recent declines in asset values Will spoke about, our leverage on the fair market values has increased and now sits at 53%.

While we don't anticipate significant further weakness in asset values, this is a metric we need to be mindful of as we progress through the cycle. Importantly in today's credit constrained market, we have no near term debt maturities with our first maturity not until 2019. The key to prospering during tougher times is to keep costs down such that the company is cash flow positive during pretty much any market cycle. Tanker Investments has a very competitive cost structure with our operating cash flow breakeven on an after max equivalent basis of around $9000 per day. And if we include interest payments, our after max equivalent breakeven is approximately $11,500 per day.

Importantly as can be seen on the chart to the right, these two breakeven levels with our operating cash flow breakeven depicted in green and including interest in purple are below the lowest after max rates experienced over the past 25 years except for 1992 when after max rates averaged $10,070 per day which I note is still above our operating cash flow breakeven. If we then add debt amortization to our breakeven depicted by the orange line, we get an all-in breakeven of approximately $17,200 per day, which is well below the long term after max average of approximately $24,000 per day. We believe this financial strength provides investors with an opportunity because our stock price today is pricing in significant tanker market downside that, as Will explained earlier, we don't believe will occur.

Looking at slide nine, we believe Tanker Investments represents compelling value and the equity price has become dislocated from market fundamentals. We are currently trading at approximately 50% of NAV which with roughly 50% leverage implies that tanker values will drop by an additional 25% from today's current price for a five year old after max at $35 million to $26 million. As can be seen on the chart, we have to go all the way back to 1992 and 1998 when five year old after maxes sold below $26 million. Not even during the five year downturn we experienced between 2008 and 2013 did tanker values get this low.

William Hung: Thank you Scott. In summary, we are not abandoning the original TIL strategy. However, as we enter into the softer part of the cycle, we believe it is prudent to change tactics and position TIL to maximize shareholder value by waiting for a firmer asset market to execute on our sell strategy. In the meantime, we believe the cash flow we expect to generate by trading our vessels through our operating platform will provide more value than selling the assets at the current market and conditions. Thank you. Operator, we're now available to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one 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, please press star one on your touch-tone phone. Okay. One I'll take the first question from (Magnus) from Seaport Global. Please go ahead.

(Magnus): Yes thank you. Just a question on - you mentioned that you're actively pursuing more time charters. What's the appetite there given the weakness that we're seeing in the spot market from your clients?

William Hung: Hi (Magnus). Thanks for the question. We are - actually there are quite a few time charters that we're looking at right now. There has been a few done recently. It's not as illiquid as people say it is. And with our relationships with oil majors and with other charters as well, I do believe that this is a strategy we would be - we will be able to pursue.

(Magnus): Okay and in a Teekay Tanker showed the slide that they have about 30% fixed for 2017. Any targets or would you do them opportunistically? I mean I guess, you know, you may have to take a discount here to or a premium to the spot market.

William Hung: Yes. We're - no we're going to look at it from an opportunistic point of view and not focus on a targeted number.

(Magnus): Yes and information we all know that we have seasonality here. I mean I wouldn't, you know, this is something that may be more opportunistic coming into the winter months. Wouldn't you agree?

William Hung: No. That's absolutely correct.

(Magnus): Right. And then just lastly on the, you know, buy back and the lower asset values that we're seeing in the market, would you I mean refrain from buying assets or focus more on just buying back your stock even the big discounts in that?

William Hung: Yes. As I think the consistent theme that we've talked about in this quarter is that yes the steel prices right now we're not going to be sellers. We're - with everything that's going on in the capital markets, we're not going to be buyers as well. We're going to really focus on our operations. We're going to try to bring down some of our debt levels as well. So we're just we're going to focus on efficient operations and maximizing our cash flows through this period.

Scott Gayton: Yes and just following up on that (Magnus) I think if we did have excess cash flow it would be more prudent to be buying back stock then to go out and buy ships. That even though we're putting our strategy on hold for a little while, that doesn't mean that we are going to be turning around and buying ships. If we do have excess capital, we'd just buy our own stock at a discount, which obviously is like buying ships cheaper as I said on my last slide.

(Magnus): Okay. And I know you only two coded after maxes but, you know, we've seen a little bit of a pickup there in the product tanker market. Any thoughts there on the outlook for the product tankers vis-à-vis the crude tankers?

William Hung: Yes. You know, this is - the slide that I talked about the seasonalities, you know, we did expect that the LR2s were going to pick up during the summer months as they do every year. So the LR - the coded after max are making more than the crude. But as we get into the fourth quarter, we'll probably see that trend reverse and just do the normal seasonality.

(Magnus): All right. Thank you.

William Hung: Thank you.

Operator: Okay. The next question comes from (Eric Havaphen) from Pareto Securities. Please go ahead.

(Eric Havaphen): Hi. As you talked with less about the dividend now, I understand that it's all given a slightly more prudent or cautious market outlook. But in terms of buybacks versus dividends and that issue, I mean the stock you bought back previously obviously they've been - they're worth less today than what they were. So how are you thinking in terms of buybacks versus dividends going forward? Should we - I mean you talk about maximizing shareholder values but how do you think it's best to positively return values to shareholders?

Scott Gayton: Yes. Hi (Eric). I would say at this level of discount to NAV and given what is implied through the asset values that I would be favoring buybacks over dividends. But, you know, it's a dynamic market and we'll see where things go when we get to that point. And ultimately it's a board decision but it's hard not to look at the valuation right now and want to take advantage of that.

(Eric Havaphen): And on the time charter side and we're looking at what kind of duration should we expect there? I mean I understand you want be opportunistic but then where's the market the most liquid like that in terms of opportunities?

William Hung: Sure. Hi (Eric). We feel that 2017 is going to be the soft market. So that's the period. That's the time period that we're probably going to want to protect ourselves from.

(Eric Havaphen): Okay. Thank you.

William Hung: You're welcome.

Operator: Ladies and gentlemen if you would like to ask a question, please press star one on your touch-tone phone. Okay the next question comes from (Marius Ferrilli) from Carnegie. Please go ahead.

(Marius Ferrilli): Hi Scott and William. My first question I would like to operations. Have you seen any increase in waiting time as a result of the oil outages in Latin America and West Africa? And also should we expect a lower utilization in the forthcoming period?

William Hung: Hi (Marius). So no we haven't seen the waiting times in Latin America slow down or anything like that. It's been pretty normal there but again in Latin America the story around there is that there is the production outages. So that's going on right now and that's why we've seen a decrease in volume in the Atlantic. That being said, we do see that in moving into Q4 here I was reading this morning Libya is already opening up three terminals. So that's going to be positive. We hear that Brazil is going to have two or three FPSOs that are going to be online over the next second - during the second half of this year. So that's going to increase production. Then we do believe at some point that Nigeria production is going to come back online. So those three things in itself we believe that going into Q4 is going to give an uptick in the market. In terms of your utilizations questions, can you repeat that again please?

(Marius Ferrilli): Yes so like if we're heading into a soft 2017 market, do you expect that your fleet utilization to be any different from what it has been for the past let's say 12 months?

William Hung: Okay. Thank you for repeating the question. I do not believe so. One of the things with - that we have is we have all our ships operating in the Teekay Tanker's RSA. And although we're having these outages in the Atlantic, the majority of the RSA fleet is actually positioned in the Pacific. And that was done on the basis of what we were seeing in the Atlantic. And the Pacific is actually doing quite well. We - Teekay had - Teekay Tankers has a lot of COAs that are based out of the Pacific and we're able to keep our utilization up on that level.

(Marius Ferrilli): All right. All right. Thank you very much. That was it for me.

William Hung: Thank you.

Operator: Okay. We'll now take the next question from (Nicolai Divek) from D&B. Please go ahead.

(Nicolai Divek): Hello. Good morning. Just one question. Previously we talked about the targeted leverage level where you feel comfortable staying also given your view of the market and the slowdown we're seeing in buyback. Could you comment a bit on you said market is just a leveraged 53%? Where would your targeted leverage be before we could see an acceleration in buybacks again?

Scott Gayton: Oh hi (Nicolai). Yes I think last quarter we had talked about being in a low 40s on a book basis and obviously that's going to move around from our value point of view depending on where asset values are. But I think that would probably calibrate to something in the high 40s when it would look like we're positioned to buyback. But I don't think that's the only metric. I think we would have to also look at the outlook. If the outlook is for some reason looking stronger maybe than we expect and the stock price is still representing good value then we may look at picking that up.

Conversely if things are looking poor and we end up with those levels, then we may want to be, you know, a little more conservative. So I think it is a little more dynamic than just saying here's our number and therefore once we hit that we'll be on the buyback. But it is something that we do want to try and, you know, return capital to shareholders and but at the same time make sure that we're not being too aggressive with the balance sheet given the uncertainty in the asset market that we see coming.

(Nicolai Divek): Okay so you would like to lock in rates for '17 as then you view that asset value sound rates will pick up again in '18. Is that so?

William Hung: That's right. That is - yes that is our view and that '17 will be the softer market.

(Nicolai Divek): Okay.

William Hung: Thanks (Nicolai).

(Nicolai Divek): Thank you.

Operator: Ladies and gentlemen if you would like to ask a question, please press star one on your touch-tone phone. Okay it appears there's no further questions at this time. Mr. Hung, I would like to turn the conference back to you for any additional or closing remarks.

William Hung: Well thank you everybody once again for joining us this quarter and I look forward to talking to you again when we've reviewed quarter three. Thank you.

Operator: Thank you. This concludes today's call. Thank you for your participation. You may now disconnect.

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