



TEEKAY TANKERS LTD.

**Moderator: Bjorn Moller
May 15 2009
10:00 am CT**

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Teekay Tankers Limited fourth quarter 2008 earnings release 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 questions. For assistance during the call, please press star 0 on your touchtone phone. As a reminder, this call is being recorded.

Now for opening remarks and introductions, I'd turn the call over to Mr. Bjorn Moller, Teekay Tankers' President and Chief Executive Officer. Please go ahead, sir.

(Kent): Before Mr. Moller begins, I would like to direct all participants to our Web site at www.teekaytankers.com, where you will find a copy of the fourth quarter 2008 earnings presentation. Mr. Moller 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 fourth quarter earnings release and earnings presentation available on our Web site.

I will now turn the call over to Mr. Bjorn Moller to begin.

Bjorn Moller: Thank you, (Kent) and good morning, everyone. Thank you for joining us on today's call.

I'm pleased to report on Teekay Tankers' fourth quarter 2008 results, which were delayed due to a later than normal start to our year-end audit, following our now completed accounting restatement process. Our team continues to work diligently to catch-up on our normal reporting schedule, and we anticipate being back on track by the time we report our second quarter 2009 earnings expected in August.

With me from Teekay Tankers here in Vancouver is Vince Lok, Chief Financial Officer and Peter Evensen, Executive Vice President joins us from Connecticut.

Turning to the presentation and to slide 3, I'll review some of our recent highlights, starting with the fourth quarter of 2008. I'm pleased to report that the company generated cash available for distribution of \$18.8 million allowing us to declare a fourth quarter dividend of 72 cents per share. This brought our total dividend in 2008, a very strong year for spot tanker rates, to \$3.39 per share, far exceeding our projections at the start of last year.

For the quarter, we earned \$13 million or 52 cents per share in net income and this excludes an unrealized loss of \$13.8 million or 55 cents per share on an interest rate swap. Continuing into 2009, yesterday we declared a dividend of 59 cents per share for the first quarter. Despite a drop in spot tanker rates compared to the fourth quarter, we were still able to pay an attractive dividend based on our substantial fixed-rate cover at strong rates.



Over the past two quarters, we entered into favorable fixed-rate time-charters for three additional vessels in our fleet, which means more of our 2009 cash flows locked in at rates well above today's spot market.

Turning to slide 4, it's no secret that the outlook for the tanker market is challenging for the rest of 2009. And it's times like these that Teekay Tankers' relationship with its sponsor, Teekay Corporation, is proving particularly valuable.

First, Teekay Tankers' spot market vessels enjoy the benefits of scale through our participation in the Teekay-run Gemini Suezmax Pool and the Teekay Aframax Pool. Pool earnings from these large fleets of uniform-sized vessels have consistently been at the high end of the market range.

The Gemini Pool consists of 42 vessels and represents approximately 13% of the world's Suezmax fleet. In addition to Teekay, the Gemini Pool members include leading names in the tanker industry with vessels contributed from Frontline, Nordic American Tankers, HMM and Koenig. Our spot Aframax vessels trade in the Teekay Aframax Pool. Currently, this pool consists of 30 vessels and represents a 5% global market share.

Second, we also benefit from Teekay Corporation's extensive customer relationships, which have been instrumental in securing several time-charter contracts for Teekay Tankers during a period where such contracts were hard to come by.

Recent examples include our 3-year time-charters for StatoilHydro and Valero for two Aframax tankers, the Kyeema Spirit and the Kareela Spirit. These vessels were chartered at healthy fixed-rates of \$31,000 and \$28,825 per day respectively. We've also recently secured a 9-month extension for the Everest Spirit at \$26,500 a day. All of these rates – all of these charter rates exceed current Aframax spot rates.



On slide 5, we show the updated picture of our current fleet employment profile, including our recent time-charters. Through active management of our fleet, we now have 7 of our 11 vessels or 62% of our revenue days operating under fixed-rate employment for the balance of 2009. Just four of our vessels are currently trading in the spot market and are part of the Teekay pools. As some of our time-charters begin to roll off at the end of this year, the percentage of fixed-rate coverage will gradually decline to 41% of revenue days in 2010 and 27% in 2011.

On slide 6, we have illustrated how our charter mix is expected to outperform the pure spot market this year. The graph shows the average TCE rates we have generated with our fixed-rate and spot vessels over the last few quarters, where Suezmax is shown on the left and Aframax is on the right.

Reflecting the market trend, our spot TCE rates shown with the red line, were very strong in the fourth quarter and held up reasonably well into the first quarter. During that time, we were active, locking up forward fixed-rate time-charter cover for our fleet. With the recent sharp decline in the tanker market, spot rates are now well below the approximately \$30,000 a day we're expecting to earn on our fixed-rate vessels for the rest of the year, shown by the blue line. Our fixed-rate cover effectively sets a floor under our earnings and ensures that we can continue to pay out an attractive dividend as we show on the next slide.

So turning to slide 7, the table indicates our estimated dividend payout for the second quarter of 2009 at various spot TCE rates, taking into account the support provided by our fixed-rate charters. If you look at the top left on the table, our current fixed-rate cover means that even in the improbable scenario where spot tanker rates fell to zero, Teekay Tankers could still generate enough cash flow to pay out a quarterly dividend of approximately 10 cents per share. I don't know if any other tanker shipping company that can make that claim.



With 50% of our spot days booked for the second quarter, average realized spot TCE rates are approximately \$25,000 a day for Suezmax and \$15,000 a day for Aframax. Assuming these rates continue for the rest of the quarter, we would expect to pay out a quarterly dividend of 30 to 35 cents per share. This figure does not include the annual settlement of the profit share on the Ganges Spirit time-charter, which takes place in the second quarter and which we expect will contribute an additional 10 to 12 cents a share to our Q2 dividend.

Slide 8, shows our debt repayment schedule for the next 5 years. In addition to our fixed-rate coverage that I just described, the stability of our dividend is enhanced by the favorable terms and conditions of our debt facilities. As you can see, our quarterly principal repayments are less than a \$1 million a quarter. We have a low average cost of debt, and we have no financial ratio or hull covenant concerns. The company has sufficient liquidity with over \$78 million of cash and undrawn revolver capacity as at March 31, 2009. And because we only pay out what we generate in net cash flow, the amount of our liquidity remains roughly the same each quarter.

Turning to slide 9, we've highlighted some of the fundamentals we see impacting the tanker market in 2009 and 2010. Rates are currently very weak, and we expect to see challenging market conditions for the rest of 2009. The most severe economic downturn in 60 years has led to shrinking global oil demand and heavy OPEC cutbacks, which have translated into reduced tanker demand and lower rates. In the short-term, the play on oil price contango has led to have reported 100 million barrels of oil currently being stored on vessels, which has helped tighten fleet availability on the margin.

On the supply side, the tanker fleet has grown, with new deliveries exceeding a relatively low level of scrapping in the year-to-date. However, at today's low spot rates, we would expect scrapping to rise substantially in the coming months. Delays in new building deliveries from greenfield yards could partially mitigate near-term fleet growth, particularly for Suezmax, where 35% of the order book is for new shipyards.



Looking into 2010, the effect of global economic stimulus packages in major economies, coupled with lower energy prices, should lead to a rebound in oil demand growth next year. And just as there has been a large negative tonne-mile effect from OPEC cuts over the past year, any reinstatement of OPEC output to meet returning oil demand would be very accretive to tanker tonne-mile demand.

In addition, tanker supply growth is expected to be dampened next year by the IMO mandated single-hull tanker phase out, coupled with potential new building cancellations due to many orders placed at peak prices being out of the money and not yet financed. These market dynamics match up very well with Teekay Tankers' charter mix with our higher fixed rate cover during a weak 2009 and a gradually increasing spot exposure from 2010.

Finally, turning to slide 10, we wanted to highlight the compelling value that Teekay Tankers represents to investors, especially when compared with Nordic American Tankers or NAT, a leading full payout dividend tanker company with a similar fleet profile.

As you can see from the table, Teekay Tankers is trading at a current yield of 20%, almost double the 11% yield of NAT's based on each company's first quarter dividend. We believe Teekay Tankers' relative value is further enhanced by the substantial portion of our fleet operating under fixed-rate time-charters, 64% versus NAT's 8% and the stable cash flows and low dividend breakeven this provides us.

In fact, our charter profile gives us a dividend breakeven TCE rate below zero, while NAT's according to its publicly disclosed information must earn a TCE rate of approximately \$10,000 a day to pay a dividend. Put in another way, if the spot tanker market were to drop all the way down to \$10,000 a day, Teekay Tankers would still generate an estimated 8% dividend yield, while NAT's yield would fall to zero.



In closing, while the tanker market fundamentals are currently pointing to a weak spot market over the next 2 to 3 quarters, our current fleet mix between fixed and spot charters is expected to still enable us to pay an attractive dividend during this period. Our gradually increasing spot market exposure in 2010 and 2011, should position us well to take advantage of a potential recovery as the tanker market fundamentals improve.

Thank you for listening in this morning and operator, I am happy to take questions now.

Operator: Thank you, sir. Ladies and gentlemen, if you'd like to ask a question, please press star 1 on your touchtone phone. To withdraw your question, please press the pound sign. If you are using a speakerphone, please lift the handset before entering your request. Please standby for the first question.

The first question comes from Jon Chappell from JPMorgan. Please go ahead.

Jon Chappell: Thank you. Good morning.

Bjorn Moller: Hey, Jon.

Jon Chappell: Two questions this morning, but before I ask them, I'd just recommend that maybe you fax slide 10 to Jim Cramer, see if you can put that on CNBC. I wanted to talk about your growth strategy and outlook, especially the asset prices have been falling. How does the lower asset prices and I know we don't have any real market view on them because of the illiquidity in the market, but how do they impact TNK's ability to grow, especially as it relates to the potential drop downs from the Teekay parent?



Bjorn Moller: Well, I think the issue is clearly to take in a measured approach to that. I think tanker values have fallen quite a lot. I think there is an attractive buying opportunities out there. And I guess its matter of having a currency that makes those acquisitions accretive. So that's something we look at on an ongoing basis, Jon. And let's just say that Teekay Tankers has the option to acquire two Suezmaxes from Teekay Corporation, so that provides some potential growth there.

Jon Chappell: And does the fact that maybe market values have dropped below the book value on those two Suezmaxes, is that going to impact Teekay's decision making at all into potentially dropping those down?

Bjorn Moller: Are you referring to Teekay Tankers or Teekay Corporation?

Jon Chappell: Well, it's going to be Teekay Corporation's, I guess, decision to drop them down, is there any impact of having the market value potentially below the book value on those assets?

Bjorn Moller: I think the issue is that Teekay Tankers is entitled to the offer of two vessels by Teekay Corporation, so that's really I guess the main guide.

Jon Chappell: And would you think 50-50 financing debt and equity will that be the primary way to do it in this market?

Bjorn Moller: Well, I guess the vessels that would come from Teekay would be – already come with refinancing, very attractive debt financing that exist on those vessels that would be provided. So I think financing is not an issue.

Jon Chappell: OK and then, the last thing, just a detailed model question. I saw on your table in the presentation that we should forecast another \$2 million of dry-docking as we try to arrive at our



dividend forecast. Is that \$2 million quarterly run rate something we should be using through '09 and also through 2010?

Vince Lok: Yeah, Jon, this is Vince. That's a good guide for 2009, \$2 million per quarter.

Jon Chappell: And next year, will it be the same amount or was there a heavy amount of dry-docking this year, we could maybe take that number down in 2010?

Vince Lok: In 2010, I would expect about the same. We have four vessels dry-docking in both years.

Jon Chappell: OK. Thanks, Bjorn and thanks, Vince.

Bjorn Moller: Thanks, Jon.

Operator: The next question comes from Chris Wetherbee from Merrill Lynch. Please go ahead.

Chris Wetherbee: Thanks, good morning. I guess I could just hit on the time-charter coverage, when you look at your mix right now. Is there any sense that you might want to go above the current mix of time-charter coverage on your vessels. I know you have seven out there on contracts; will you go any higher than that given the current or the potential weakness in the market?

Bjorn Moller: I think that would be an actively managed decision. The – with spot rates turning quite weak recently, the amount of customers out looking to cover – and in a forward cover at rates well above that has dried up somewhat. So, I guess we'll be opportunistic, but Teekay Corporation's customer relationships certainly would open a lot of doors that would not generally be available to others. I would not expect that we can do a lot more time-charter that would be attractive in near-term. But if we see anything, we'll certainly consider it. So, it's a sort of week-to-week decision.



Chris Wetherbee: And so, I guess the same would go for potential extensions of the charters that you have rolling off towards the end of the year. I guess that's a market-based decision as you see where the rates are relative to what the demand looks like at that point?

Bjorn Moller: That's right. And I think, it's certainly too early at this point for both sides of the table to look at extension, when contracts still have 9 months to run. But I would point out that, I think, I want to emphasize, the great attraction that the 7 time-charter vessels provides. These charters are very deeply in the money and so I think it speaks to the tactical fleet management and it really provides the ability to outperform other yield vehicles in this downturn.

Chris Wetherbee: Absolutely. And then I guess you know on the order book side you mentioned some delivery delays, I guess if you could just comment a little bit further, what are you guys seeing in the market relative to the you know kind of the schedule of deliveries and what type of delays that we're seeing and to the extent that you expect that to kind of accelerate as you move through the rest of this year?

Bjorn Moller: Yeah, the – I guess, this sort of anecdotal reports indicate that a lot of greenfield jobs are running between 6 and 12 months behind schedule and so that, I think we're are not optimistic that there will be any cancellations of vessels that were due to deliver in 2009 even if they are 6 to 12 months delayed because the construction is well underway. So that gives us a short-term benefit in that. There's less fleet growth in '09.

The cancellations are more likely to come into play with ships that were due to be delivered in 2010, because they haven't advanced very far and the financing for those types of vessels is really difficult to come by certainly for some owners, and the small shipyards in China in particular and to some extent in Korea, they're very unproductive and they're vulnerable to any cancellations. There have been some bankruptcies of shipyards already.



And so, we see so far 4% of the tanker order book has been cancelled according to reports. We've been able to ((inaudible)). So, we think that's going to go up. So I think we'll see – and I mean the other thing to just dwell on briefly is that the tanker ordering has completely dried up for the last 9 months. I mean it's practically no tankers have been ordered. So, I think, we are beginning to, sort of, sow the seeds for the recovery already.

Chris Wetherbee: And then, just on the scrap side, anything that you are seeing there? Obviously there's been some issues from an environmental perspective with some areas in the world for scrapping, but just want to get a sense of kind of what you are seeing on scrapping on the tanker side?

Bjorn Moller: I think, it's surprising how few tankers have been scrapped when you consider that spot VLCC rates are you know basically zero at the moment, but I read into that, the fact that it's only 2 months ago that we still had a very strong tanker market. We had a record 2008. So I feel that the psychology hasn't really set in yet. And people who have maybe another year left until the IMO phase out in 2010, they might give it another month or two or three while they figure out what's going on, but in the meantime, the ships are sitting idle. They are probably marginalized because of the weak demand. So they're not trading, but I expect to see that the scrapping pick up substantially later this year.

Chris Wetherbee: OK. That's certainly makes sense from our perspective as well. Thanks very much for the time.

Bjorn Moller: Thank you.

Operator: Ladies and gentlemen, if they are any additional questions at this time, please press star 1 on your touchtone phone. The next question comes from Martin Roher from MSR Capital Management. Please go ahead.



Martin Roher: Thank you. I wonder if you can expand a little bit on an earlier question. Teekay has had a proven history of making acquisitions, which have been accretive for your shareholders. Do you expect this environment will create the opportunity to do some meaningful acquisitions in 2009?

Bjorn Moller: Hi, Marty.

Martin Roher: Hi.

Bjorn Moller: Well, I guess, wearing my Teekay Tankers' hat, we're looking specifically at the incremental vessel acquisition opportunities out there and the first order of business probably the vessels that Teekay Tankers is obligated to offer us and – we are going to be publishing Teekay Corp's earnings in early June, and I guess we'll have a conference call where we will speak to that, but I guess, wearing my Teekay Corporation hat for a second is essentially, I think we would probably take the view that 2009 we ride it out and just take a very conservative approach. We want to improve the Corporation's credit profile and be prudent, and I think there will be good deals even next year and the year after. So, we would say keep the powder dry.

Martin Roher: If I can ask one other question, on one of your slides you mentioned that the IMO single-hull phase out for the next year is going to affect 16% of the tanker fleet. Is that the expected percentage in 2010 or currently? I thought it was a lower number in 2010?

Bjorn Moller: Well, the 16% of the existing fleet is non double-hull.

Martin Roher: OK.



Bjorn Moller: And this I guess there is some nuances in the IMO regulations. Essentially 2010 is the drop dead for all non-double hull tankers, but then there are some opportunities for some vessels, under some flags and in some in non-IMO countries to maybe exonerate ships to trade on. But that is practically impossible to do on any main trade routes because you have major oil companies involved, you have (four state) authorities and if any one member of that chain is adhering to the IMO regulations then the ships cannot trade.

So, they might get used for storage, and there is also big CapEx expenses coming up on some of these older vessels, which will certainly push them to the scrap yard. So, it's an indicative number but I think it's a significant positive dynamic for tanker supply next year.

Martin Roher: Thank you very much and thank you for the presentation.

Bjorn Moller: Thank you, Marty.

Operator: Mr. Moller, there are no further questions at this time. Please continue.

Bjorn Moller: OK. Well, thank you for joining us and we appreciate your support and interest and we'll talk to you next quarter. Have a great day.

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

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