# TEEKAY CORPORATION

## Moderator: Kent Alekson
## May 13, 2010
## 12:00 pm CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Teekay Tankers' First Quarter 2010 Earnings Results conference call. During the call, all participants will be in a listen only mode. Afterwards, you'll 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 0 on your touchtone 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. Bjorn Moller, Teekay Tankers' President and CEO. Please go ahead, sir.

Kent Alekson: 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 first quarter 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 first quarter earnings release and earnings presentation available on our Web site.

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

Bjorn Moller: Thank you, Kent and hello everyone. Thank you very much for joining us. With me from Teekay Tankers here in Vancouver is Vince Lok, Chief Financial Officer. And joining us are also Peter Evensen, Executive Vice President, and Brian Fortier, Corporate Controller.

This morning, we're reporting on Teekay Tankers' results for the first quarter of 2010, and I'll begin with slide 3 of the presentation with our recent highlights. I'm pleased to report that the company today declared a quarterly dividend at the top end of our previously released guidance for Q1 of 37 cents per share, up from 26 cents per share in the prior quarter. This dividend is payable on May 28, 2010.

During the quarter, our spot Aframax – spot Aframaxes earned an average TCE of $17,624 per day, and our Suezmaxes earned $32,032 per day. For the quarter, we earned adjusted net income of $6.4 million, or 20 cents per share. In April of this year, we completed a series of transactions, acquiring three modern vessels and selling one older Aframax, with a combined impact of these transactions increasing our illustrative dividend by approximately 15% and increasing our financial strength by using a greater percentage of equity to finance the acquisition.

I will provide further details of this increase later in the presentation. I will also speak to the tanker market in general and try to provide some insight into the relatively strong rates currently being enjoyed by our spot trading fleet.

Lastly, we recently completed a new time charter for one of our Aframaxes upon the expiry of its current time charter. With this new charter, commencing in August, we will have a rate of $18,300 a day for a period of approximately 14 months. On the next few slides, I'd like to highlight a few key points from the recent accretive transactions completed by Teekay Tankers.

Turning to slide 4 of the presentation, we acquired three modern vessels – the Yamuna Spirit, Kaveri Spirit, and Helga Spirit – from our sponsor Teekay Corporation for a total price of $168.7 million. Two of the vessels are on time charters to substantial counterparties, increasing the amount of fixed rate cash flow we generate to support our dividend. And the third vessel, the Kaveri Spirit, is trading in the spot market.

We also sold an older 15-year-old Aframax tanker, the Falster Spirit, for an attractive price of approximately $17 million and used the proceeds to repay debt. All told, we expect these transactions – together with the associated equity raise completed in April – to increase our illustrative dividend run rate by approximately 15%, as I will detail on a later slide.

A further positive effect of the sale of the Falster Spirit is that we no longer need to complete a scheduled expensive dry-docking of this ship, resulting in incremental cash available for distribution. Additionally, none of the new ships need to be dry-docked until 2012, thus the dry-dock reserve will not be increased due to the acquisition.

Turning to slide 5, in addition to being accretive, these transactions also significantly increase our financial strength and profile. The fixed rate charters on the Yamuna Spirit and the Helga Spirit, plus the Nassau Spirit charter, have increased the percentage of our fleet trading under fixed rate time charters for the rest of 2010 from 55 to 60%. We feel that this is an appropriate level of fixed rate coverage, as it helps to offset some of the rate volatility, which might occur throughout the rest of this year.

We expect our financial leverage, as measured by net debt to capitalization, to reduce from 59% at March 31 to approximately 45% at the end of the second quarter. This substantial strengthening of our financial position was made possible by the successful public offering completed in April and the concurrent $32 million of equity contributed by our (supportive) sponsor, Teekay Corporation.

Our financial liquidity also rose as a result of these transactions, increasing by approximately $100 million from $135.9 million at the end of March to approximately $235 million. With the acquisition of these three ships, we were able to assume very attractive financing that had been prearranged by our sponsor. This preferential financing does not require any payment now until 2016, due primarily to the amount of equity raised in connection with this acquisition, leaving a significant portion of this facility as undrawn.

Looking at slide 6, we have updated the picture of our current fleet employment profile and updated the percentage of fleet trading under fixed rate charters for the recent acquisition and other fleet changes. As just mentioned, we now have approximately 60% of our 2010 operating days fixed, with the remaining 40% still exposed to the spot market. This percentage is even higher for the second quarter, with 71% fixed, due to the timing of when the contracts expire.

Turning to slide 7, we have updated the slide we presented last quarter for the recent acquisitions and sale, and extension of the charter of one of our Aframaxes. It is a busy slide, but the key takeaways are shown in the three bullet points at the top of the slide.

Our 2010 fixed rate revenues are now so substantial that they exceed all of our cost and reserve requirements by approximately 31 cents per share annually. Those 31 cents plus all of our spot revenues can therefore be paid out to shareholders. The details can be found in the per share column on the right hand side of the slide, where you can see that our 2010 locked-in fixed rate revenues amount to $1.90 per share. Deducting our expenses and reserve items leaves us with a distributable cash flow floor before any revenue contribution from our spot fleet of 31 cents per share.

Using again as an illustration only the earlier example of average spot rates of $15,000 and $20,000 per day for Aframax and Suezmax respectively, the spot fleet would contribute an additional 73 cents per share, leading to a derived dividend figure for 2010 of $1.04 per share – $1.04. This is an increase of approximately 15% from the 90 cents we would have been able to pay prior to the recent transactions.

Looking at slide 8, we illustrate the current operating leverage from our spot traded fleet with a red dotted line and compare it to the operating leverage before the recent vessel transactions shown by the solid blue line. Starting from the revised illustrative based dividend of $1.04 per share, we have projected the dividend under various spot rate scenarios.

Our illustrative dividend increases along the dotted line by our current operating leverage, which is 22 cents per share per year for each $5000 a day increase in spot TCE rates. And next to the vertical axis, we've also shown the dividend yield that corresponds to the various levels of dividend payments, using our current share price.

Unlike the purely illustrative slides I have just walked you through, the matrix on slide number 9 provides our actual Q2 2010 guidance on dividends. For the quarter to date, we have booked approximately 50% of our Aframax and Suezmax spot revenue days at $17,000 and $29,000 per day respectively.

These rates are now being exceeded, due to a firming spot market with Clarksons reporting current rates of $20,971 a day for Aframaxes and $40,652 per day for Suezmaxes. It is uncertain how long these higher tanker rates will hold. Nevertheless, as you can see from the matrix, we're likely in line for another attractive dividend payment for Q2.

On slide number 10, you can see that spot tanker rates for crude tankers have been on the rise since last August, driven by strengthening market fundamentals. Encouragingly, rates in Q2 to date have been relatively firm during what is usually the seasonally weakest quarter of the year for oil consumption.

On the larger crude tankers, the ton-mile intensive movements to China, coupled with floating storage in the Atlantic and off Iran, have supported rates, although they're off their recent peak levels. This week's strong rally in Aframax rates in the Atlantic appear to be driven by rising cargo volumes in the North Sea and increased trans-Atlantic cargo movement due to higher U.S. refinery utilization.

On slide 11, we discuss the oil market fundamentals underpinning the spot tanker market. Oil demand growth in 2010 is forecast by the IEA to be the strongest since 2004, on the back of the global economic recovery. Once again, this demand growth is expected to come from non-OECD, led by China. China's crude imports are running 16% ahead of 2009 and are being sourced from ton-mile intensive OPEC and Atlantic basin suppliers.

Importantly, however, oil demand in the OECD has finally stabilized after 2 years of negative growth, and this removes a major drag on tanker demand. OPEC quota compliance continues to slip. OPEC production in April 2010 was nearly 1 million barrels a day higher than the same month last year and has been a major driver behind tanker demand growth. Looking at the second half of the year, the call on OPEC crude is expected to be higher, as global oil demand increases seasonally.

Turning over to tanker supply on slide 12, the impact of the IMO targeted single-hull tanker scrapping is now evident, as tanker removals have risen considerably compared to 2009, as shown in the top chart. The noose for single hulls is tightening further, as Thailand – which is the second largest spot (charter) of such vessels – recently announced that it is considering a ban on single-hull ships.

Also, the recent events in the U.S. Gulf are likely to end the use of single-hull tankers in the ship-to-ship lightering in U.S. waters. It is telling that this past week Vela, which is Saudi Aramco's shipping arm, has reportedly sold five of its remaining single-hull VLCCs for dry bulk conversion. As you can see in the bottom of the table, year-to-date net fleet growth has been limited to only 1.5%, due to slippage in the schedule of new buildings and the high rate of removals.

Finally on slide 13, we have updated our 2010 fleet utilization outlook slide. While not much has changed in the numbers from when we presented this slide last quarter, we have included it again, mainly as a reminder of the plausible path that would take us at least part of the distance from the base case utilization of 86% – which would typically drive a mid-cycle type tanker market – to the recovery case, which could ultimately see a return to full fleet utilization and higher rates. As these various factors play out, we do expect volatility to remain a feature for the rest of the year.

In closing, we are pleased with the progress Teekay Tankers is making, and we feel we are well positioned for the future. Thank you for listening in today, and we look forward to your questions.

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

Our first question comes from Jon Chappell of JP Morgan. Please go ahead.

Jon Chappell: Thank you. Good morning, guys.

Bjorn Moller: Hi, John.

Jon Chappell: Just two quick ones for you – this is a pretty straightforward story. The first one, on the Teekay call you made mention that the returns aren't quite at your hurdle rates yet for acquiring ships. So I'm thinking the cost of capital on TNK is a little bit different. Are you closer to your hurdle rates on TNK, or are they any different from Teekay's, where you might be closer to pulling the trigger on more growth in this entity, before you would at the parent?

Bjorn Moller: Right. OK. Well, I think the importance for Teekay Tankers is that we have a valuable currency that allows us to acquire vessels using that currency.

Jon Chappell: Yes.

Bjorn Moller: So we can acquire vessels on a – at – on very attractive economics, and this is the basis on which we've been able to achieve such significant dividend growth with this latest acquisition we made.

Jon Chappell: Yes.

Bjorn Moller: So it's a very different situation, based on the assets' values – where they are and where our share price is.

Jon Chappell: And more attractive for TNK …

Bjorn Moller: Right.

Jon Chappell: … where we stand right now than for TK …

Bjorn Moller: … ((inaudible)) for future growth.

Jon Chappell: OK. The other one – just maybe you have or maybe Vince has it – just an update on the timing of any dry dockings – not as it relates to the cost, because I know that you're smoothing that out, but just the number of off-hire days for the next three quarters?

Vince Lok: Yes, the – in the second quarter, we have two vessels dry-docking, and we have one in the third quarter. And of the two ships in the second quarter, there is one lengthy dry dock in there for one of the older ships. So off-hire days are about 100 days in the second quarter, and that's built into our dividend table …

Jon Chappell: Yes.

Vince Lok: … for the second quarter. And then the one in the third quarter's a shorter one – probably about 20 days. And again, as a reminder, there's no dry dockings scheduled for 2011.

Jon Chappell: Perfect and none in the fourth quarter.

Vince Lok: None in the fourth quarter.

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

Bjorn Moller: Thank you, John.

Operator: The next question comes from Ken Hoexter with Merrill Lynch. Please go ahead.

Scott Weber: Hi, guys. It's Scott Weber in for Ken today.

Bjorn Moller: Hi, Scott.

Scott Weber: Hi. Just a general question – I mean, when we're looking at the spot rates quoted by the brokers, they're – for the – for the Q1, they're about 10% to a little higher than what you guys actually achieve. Is that just a function of how – a lag effect and how the rates have quickly moved since you put the – put the ships on charter? Or what's that really attributable to?

Bjorn Moller: And are you referring to Clarksons?

Scott Weber: Yes. Yes, so if I look at Suez's rates during the first quarter, Clarksons', or one or two other sources, I see about 36 to $37,000 versus – you know your $32,000.

Bjorn Moller: Yes. Well, that's a good question. The Clarksons numbers, first of all – you know are very helpful from a directional standpoint, but it should be borne in mind that they're theoretical numbers, so you – you know they have different features and assumptions than necessarily those that occur in the real world. So I think they're mainly a tool to discuss the movement in rates and the direction of rates. And so I think it's – nobody achieves Clarksons numbers typically. But there is also the lag effect that you describe, because we had a lot of volatility around the end of the quarter.

Scott Weber: Yes.

Bjorn Moller: And so typically the assessments made by brokers will change on the day where you experience the fixture – the voyage contract; whereas the actual achievement of that revenue will occur 3 to 6 weeks later by the vessel. And so it's a – it's a very – it's a snapshot.

What we compare ourselves to is, of course, some of the futures trade routes or the different indices that are based on actual fixtures reported in the market. And we do very well against those indices. We also compare ourselves to our peer group, and we generally outperform or certainly perform in line with the – with the best operators out there.

So I think we're very pleased with the performance of our teams, and there'll be some volatility that short term might look as if the numbers don't match up.

Vince Lok: Just a couple of other factors – the Clarksons figures do not deduct commissions …

Scott Weber: Yes.

Vince Lok: … whereas our (TCE) figures do. And secondly, they don't take into account sort of idle days and off-hire days. So one of the rule-of-thumbs we use is you kind of take the Clarksons number and take about 90% of that to get to your TCE.

Bjorn Moller: And lag it as well.

Vince Lok: And lag it as well, yes.

Scott Weber: Got you. That's helpful. And then, just in terms of the charter coverages, you see the strengthening of rates here, and it's been somewhat rapid. Do you – I – do you – what's your goal or what's your outlook in terms of the mix of charter and spot? Would you – would you look to put any of the current spot fleet back on charter on a shorter term? Or how do – how do you see that playing out over the next 6 to 12 months?

Bjorn Moller: Right. It's a – it's a – we actively manage this in a tactical manner, where we try and judge the optimal mix, and I guess it's important that we – and I think we've benefited from the ability to create a stable flow under our dividend that has allowed us to pay out very attractive dividends, even during weaker periods, as you saw in second half of 2009.

And so of course time charter rates now are lower than some of the charters we have that are rolling off. So we want to kind of weigh that against where we see the spot market. So as you can see, the $18,200 or 300 – we agreed on the Nassau Spirit – is probably sort of a tactical conservative move to secure the floor. But we do – we do have significant exposure, as shown by the operating leverage graph of 22 cents per share for each $5000 a day tanker rates move.

And so we think this is a good mix, but it may vary – as you can see, into 2011. We have less coverage, but we will again evaluate that as the year progresses, and decide where do we want to be for 2011.

Scott Weber: OK. Terrific. Thanks for the time.

Bjorn Moller: Thank you.

Operator: The next question comes from Matthew Troy with Citi Investment Research. Please go ahead.

(Bascom Majors): Hi, guys. This is (Bascom Majors), in for Matt.

Bjorn Moller: Hello.

(Bascom Majors): Hey. On the order book, I see that you kept the cancellation assumptions consistent, I believe, with what you reported last time for the year at around 5% in your supply analysis. I was hoping you guys could give some color onto what drives that and the – you know directionally whether you're seeing anything change one way or the other on the financing side.

Bjorn Moller: Right. It's – there's not a huge amount of concrete cancellations being reported. But I think you can consider maybe that there is a bit of a proxy for a combination of delays and cancellations that will affect 2010. So – I mean, there are still a number of vessels that's looking for financing, where the values are way out of the money, compared to the new building contracts.

So we suspect there'll be some workout situations coming up. Whether that may lead to conversion of those (berths) to other types of vessel – that would be one possibility. But – you know we're not – we're not seeing a lot of cancellations. So that may not end up occurring on any significant scale. So we have been relatively conservative in the number we're assuming.

(Bascom Majors): All right. And to follow up on an earlier question, you spoke about your stock being a valuable currency in enabling you to do accretive deals. Do you also have quite a bit of liquidity on the debt side already in place? Can you talk about – you know what you may do in – when and if the next deal comes around and – as far as financing mix and whether that is likely to be – you know another deal with Teekay, or if you're willing to look at some of these workouts or external deals that you just mentioned. Thank you.

Bjorn Moller: Peter, did you want to comment on that?

Peter Evensen: Yes, when we're looking at transactions, we look at both – at – up at Teekay, assuming Teekay is willing to offer us some assets at fair market value, as well as at third party transactions. And we are pretty agnostic about which one we would choose. There aren't really that many – well, there certainly aren't any distressed opportunities, and there's only some stressed opportunities.

So I think we prefer to go with our more conservative method of – if we make an acquisition, we would finance it with both equity and debt, because we think that's more sustainable going forward. However, we do have low cost liquidity, so we could use that if we were to acquire assets in a – in – as a bridging mechanism to finance it. And that's our model, and we don't see any reason to really change it.

(Bascom Majors): (All right), thanks for the time.

Operator: As a reminder, ladies and gentlemen, if you'd like to ask a question, please press star 1 on your touchtone phone. There are no further questions at this time. Please continue.

Bjorn Moller: OK. Well, thank you very much for joining us this morning, Vancouver time, and look forward to talking to you next quarter. Enjoy the rest of your day. 'Bye.

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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