Teekay Tankers Ltd.

More than half a year after Teekay Corporation announced that a conventional tanker spinoff was on the way, the entity- Teekay Tankers Ltd., has now filed registration documents for a U.S. initially public offering of "A" shares. Sponsor Teekay Corporation ("TK") a portion of the "A" shares, and will hold "B" shares. Eerily, the IPO filing, for between $175 Million - $195 Million, occurred the almost same day that an Italian tanker IPO was pulled from the market.

The optimism of late April (when Teekay Corp. announced its acquisition, along with Torm of OMI Corporation- with hints that it would provide bedrock for the IPO fleet) has been tempered. With doldrums in tanker trades lasting well into the 4Q 2007, it was no surprise that Teekay Corp. pulled the trigger once the nearby rate spot structure had firmed- attracting the attention of investors. Teekay's history is replete with examples of superb market timing. In a concession to the unpredictable nature of the markets, a spot player has emerged. Importantly, the recent spate of equity analyst "Buy" recommendations have centered on spot players, a fact surely not lost on Teekay Corp. management.

Across the shipping equity spectrum, MLPs, such as OSG's recent "OSG America" spinoff and the Capital Products Partners deal earlier in the year, have the potential to achieve higher company valuations than most conventional corporate structures. But, in soft freight markets, such as that in evidence for much of 2007, charterers are reluctant to commit to the long term charters that make for well received MLPs or fully dividend paying corporations. Teekay Tankers ("TNK", on the New York Stock Exchange) will seek to pay out the maximum amounts of cash that it prudently can. Though similar to the Master Limited Partnership (MLP) model that Teekay Corp. management had hinted at, the new entity can also be described as "wait until the market picks up", because the majority of its initial fleet will be operating on a spot basis. As guidance only, at a price of $18.50 (the pricing mid-point), an annualized dividend of $1.30/share would yield 7%, while a payout of $1.48/share would yield 8%.

The new company will be acquiring a fleet of nine double hulled Aframaxes from Teekay Corp. Five will be trading spot, two will continue under existing timecharters set to expire in mid 2008, and two that will enter into new timecharters (one expiring at the end of 2009, one expiring at the end of 2010). The five spot ships will be operating in a newly formed Aframax pool, "The Teekay Pool"- composed of 30 ships. The pool operator (Teekay Chartering, wholly owned by Teekay Corp) will receive $350/vessel/day plus 1.25% of gross revenues. According to the filing, the new entity will arrange options to purchase four additional vessels- in the Suezmax category within 18 months of the Teekay Tankers offering. These could possibly include vessels acquired from OMI Corporation (or possibly the Spanish Suezmaxes currently generating cash flow for Teekay LNG Partners until its LNG's enter service).

In consideration, TK will initially gain a 60% stake in the new entity, 10% in the form of "A" shares and 50% through "B" shares. Until a secondary offering well in the future, Teekay Corporation will retain a controlling voting interest though the dual share structure. TK also takes back a non interest bearing note from TNK for an amount equal estimated to be $249 Million based on pro-forma numbers- partly repaid from proceeds of the IPO.

Two of the nine acquired vessels are financed under an existing term loan which will be assumed by TNK. The other seven will be securing a new $229 Million reducing credit facility, of ten years duration, led by Citibank and Morgan Stanley (who are also the lead underwriters on the equity offering). An initial drawdown of $113 Million will provide for $35 Million of working capital, plus a partial repayment of the TNK note.

The new company is tied closely to the hip of Teekay Corporation in a variety of important ways- which is not a bad thing. Ties exist through the commercial Pool Manager, and also at the Ship Management level- where technical management will be provided by another wholly owned subsidiary of Teekay Corporation. The technical management arm will also be paid $350/ vessel/ day, plus 1.25%, beyond the actual operating expenses.

Unlike similar entities, notably Arlington and DoubleHull Tankers (where the Managers are also tied to the respective Sellers), the Teekay Tankers manager will be incentivized, earning a 20% performance fee if the yearly cash available for distribution exceeds threshold level ($3.20/ share). Though not exactly an "incentive distribution" from the MLP world (where General Partners gain an increasing over-ride on rising earnings), its impact is directionally similar.

In the past, the Teekay companies have shown a great sensitivity to, and the ability to successfully manage conflicts of interest between the parent, Teekay Corporation, and its two MLP spinoffs (Teekay LNG Partners and Teekay Offshore Partners). There will be significant challenges here, particularly on the chartering front.

Yet, there are also tremendous opportunities. Consider that "Teekay Corporation may seek to expand the Teekay Pool to include any Aframax-class crude tankers it agrees to manage for third parties or it may choose to establish a separate pool for any such third-party tankers. Teekay Corporation may also establish pooling arrangements for Suezmax-class oil tankers or product tankers." In addition to Teekay Corporation management, Mr. Richard Du Moulin, no stranger to the world of Aframaxes, has joined TNK's Board.

Over time, the new company's plan is to acquire additional vessels and put them into accretive charters, possibly as a result of pursuing business opportunities jointly with Teekay Corporation. Until the time of a possible secondary offering in the future, Teekay Corporation will retain a controlling voting interest in Teekay Tankers, with a portion of the "A" shares, and all of the "B" shares. But, eventually, as Teekay Corporation continues down its path of becoming a pure holding company, it will likely retain a smaller piece of a much bigger pie.

The following table provides additional information about our tankers as of November 30, 2007.

Vessel	Capacity (dwt)(1)	Built	Employment	Charterer	Daily Rate	Expiration of Charter
Erik Spirit	115,500	2005	Time charter	ConocoPhillips	$28,750	Dec. 2010(2)
Matterhorn Spirit	114,800	2005	Time charter	Eiger Shipping	32,000	Dec. 2009(2)
Everest Spirit	115,000	2004	Pool	—	—	—
Kanata Spirit	113,000	1999	Time charter	Sabic	35,000	May 2008
Kareela Spirit	113,100	1999	Pool	—	—	—
Kayeema Spirit	113,300	1999	Pool	—	—	—
Nassau Spirit	107,100	1999	Pool	—	—	—
Falster Spirit	95,400	1995	Time charter	Skaugen PetroTrans(3)	32,500	July 2008
Sotra Spirit	95,400	1995	Pool	—	—	—
Total capacity	982,600					

(1) Deadweight tonnes.
(2) Time charter begins in December 2007.
(3) Teekay Corporation is a 50% owner of Skaugen PetroTrans.

Source: F-1 filing