Chris Crum (ccrum@smu.edu)
(214) 514-3696
Grant Jones (pgjones@smu.edu)
(214) 415-5306

Top Tankers
NASDAQ: TOPT
Industrials Sector
3/16/05

Recommendation: BUY

Investment Conclusions:

- High growth potential
- Cost Management
- High dividend yield, possible special dividend in 2005.
- Investment horizon of 8-12 months
- Profit from supply shortage in oil tanker market
- Long term employment contracts to minimize downside risk, charter service to profit from spot rates.
- Increasing fleet size from 15 to 24 ships
- Oil demand will stay within estimates.
- OPEC production will increase.

Exhibit 1

Company Data	
Price as of 3/7/05	**$19.87**
Industry	**Industrials**
Sector	**Water Transportation**
Exchange	**NASDAQ**
Share Outstanding	**27.83 Million**
Market Capitalization	**551.08 Million**
EPS	**2.378**
52-Week High	**24.14**
52-Week Low	**10.1**
P/E Ratio	**8.33**
Dividend Yield	**4.14%**
Fiscal Year Ends:	**31-Dec**

Exhibit 2

			2005	
	Div Yld	**Beta**	**P/S**	**P/E**
TOPT	**4.46%**	**NA**	**2.08***	**5.26***
TNP	4.75%	0.854	3.32	6.83
OSG	1.10%	1.162	3.23	6.66
TK	1.12%	0.967	2.23	7.97
GMR	0%	0.99	3.45	7.37

*based on our estimates

Exhibit 3

Investment Thesis Summary

Top Tankers Inc. is a worldwide charter operator of a fleet of 16 tankers which specialize in the transportation of liquid and petroleum. We believe Top Tankers Inc. has positioned itself to profit from the high level of oil production and increase in world oil demand. Top Tankers has tripled the size of their fleet in the last three years enabling it to obtain long term employment contracts and also have the ability to profit from escalating spot prices. The acquisition of an additional 5 dual hull Suezmax tankers will allow the company to increases its revenue and profit from supply shortage in the tanker industry. Our investment strategy is to hold TOPT for an 8-12 month period to profit from the supply imbalance and continued world wide demand for oil. At the end of this period, TOPT should be re-evaluated due to the cyclical nature of the water transportation industry. Furthermore, TOPT is committed to paying a 21 cent divided a quarter and is also considering a one time dividend in 2005. We project growth to maintain strong and are also confident in management's ability to maintain costs at their current level. TOPT is currently cheap with a P/E of 8.52 compared to the industry average of 14.29. In summary, we feel that TOPT has earnings growth potential combined with a low P/E while also being committed to returning money to the shareholders with a 4.14% dividend yield compared to the industry average of 2.04%.

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Tanker Industry Overview

Tankers transport crude oil from their points of production to their points of consumption, which are typically oil refineries. The main clients within the industry include oil companies, oil traders, large oil consumers, petroleum product producers, and government agencies. The contracts by which crude oil is transported include spot charters, time charters and "bareboat" charters.

The pricing of crude oil transportation services occurs in a highly competitive global tanker charter market. A broker is usually involved in the deal and acts as an intermediary between the vessels owner and the charterer. The major hubs of shipping are located in New York, London, Oslo, Singapore and Tokyo.

Types of Tankers

The oil tanker fleet is divided into six major categories, based on their carrying capacity. In order to benefit from economies of scale charterers typically charter the largest possible vessel that can be accommodated in their arrival and discharge ports. The six categories of vessels are:

ULCCs and VLCCs are the largest vessels in the world tanker fleet. They carry cargos of 200,000 dwt or greater. They typically transport oil in long-haul trades mainly from the Arabian Gulf to Western Europe and the United States via the Cape of Good Hope and Asia.

Suezmax and Aframax vessels are considered mid-size tankers. Suezmax tankers can carry cargos of 120,000 to 200,000 dwt and typically engage in long to medium haul oil trades from West Africa to the North Sea to the East Coast and Gulf Coast of the U.S. Alternatively, Aframax vessels typically engage in medium to short haul oil trades and can carry cargos of 80,000 to 120,000 dwt. General Maritime's fleet is focused on the Aframax and Suezmax trade.

Panamax and Handysize tankers are the smallest vessels in the world fleet. They typically trade in short haul business and can transport cargos of 80,000 dwt to as little as 10,000 dwt.

Tanker Demand and Supply

Tanker demand is expressed in "ton-miles" and is measured as the product of (a) the amount of oil transported in tankers, multiplied by (b) the distance over which this oil is transported. Tonnage of oil shipped is primarily a function of global oil consumption, which is driven by economic activity as well as the long-term impact of oil prices on the location and related volume of oil production. Tonnage of oil shipped is also influenced by transportation alternatives such as pipelines.

The distance over which oil is transported is the more variable element of the ton-mile demand equation. It is determined by seaborne trading and distribution patterns, which are principally influenced by the locations of production and the optimal economic distribution of the production to destinations for refining and consumption. Seaborne trading patterns are also periodically influenced by geo-political events that divert tankers from normal trading patterns, as well as by inter-regional oil trading activity created by oil supply and demand imbalances.

The United States is the leading importer of crude oil in the world. Since 1995, U.S. demand for crude oil has risen in the aggregate by 6.8%, whereas U.S. crude oil production has decreased by 11.6% during the same period. Driven by the imbalance of supply and demand, U.S. crude oil imports have increased by 25.6% from 1995 to 2003.

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Tanker supply increases with the deliveries of newbuildings and decreases with the scrapping of older vessels. Typically newbuildings are delivered 18 to 36 months after they are ordered. Every two and a half years oil tankers undergo a class survey, which with time becomes progressively more expensive. If the number of newbuildings delivered stays below the number of older tankers scrapped, the demand for modern tonnage will increase, as may the rates they command.

Consolidation

The seaborne crude oil transportation business is highly fragmented and is generally provided by two types of operators: independent ship owners and captive fleets of privately and state owned oil companies. Within the industry, independent owners account for approximately 80.4% of the tanker capacity, and the top ten owners account for 26.4% of the world tanker fleet.

Focus on Safety

Environmental protection has been a major focus of the tanker industry over the past years. Regulations such as OPA 90 and IMO have caused tanker owners to take extra care in the maintenance of their vessels and plan ahead to the time their vessels will no longer be allowed to trade. Oil disasters such as the Exxon Valdez in 1989 the Erika in 1999 and the Prestige in 2002 have forced charterers to exercise extreme caution in hiring only the most modern and well-maintained vessels to trade within U.S. waters.

With major oil companies seeking modern double hull vessels, the demand has increased for these ships, thus prompting higher charter rates. **(General Maritime Corporation)**

Water Transportation Outlook

The water transportation industry is cyclical in nature because of the various influences on the supply and demand of tanker capacity. The factors that influence the demand for tanker capacity are:

- Supply and demand for oil and oil products
- Global and regional economic conditions
- Distance oil and oil products are moved by sea.
- Changes in seaborne and other transportation patterns

The factors that influence the supply of tanker capacity are as follows:

- Number of new building deliveries
- Scrapping rate of older vessels
- Number of vessels that are out of service
- Changes in global oil production.

We believe that the demand for oil and oil products will stay at high levels for the remainder of 2005. The International Energy Agency (IEA) has forecasted a 1.8% growth in world oil demand for 2005. (See exhibit 10)

World oil supply is forecasted to remain at current levels because of the lack of increased capacity. In terms of the world's economic condition, the world GDP is forecasted to increase 3.5%. The distance that oil must by transported by sea is a function of where production takes place and where demand takes place. Currently, the major producers are located in the Middle East, Russia, North America, Indonesia, and North America. The major consumers of oil currently are China, India, and the United States.

We expect the new building deliveries for the year 2005 to be a net of 24 Suezmax tankers (See Exhibit 4). Due to a regulation from the

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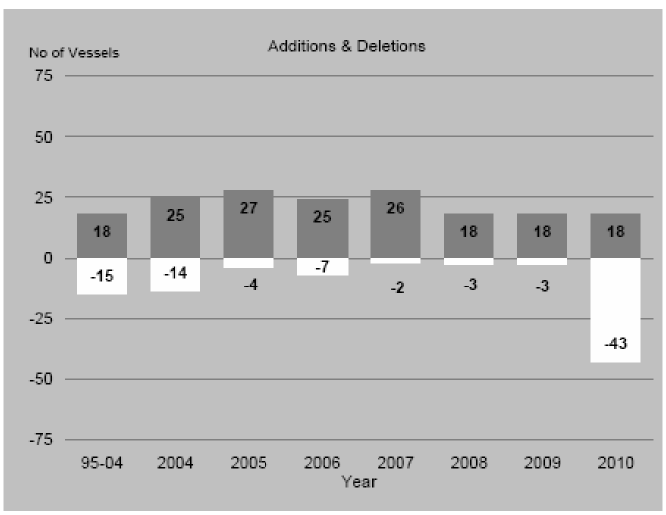
International Maritime Organization, an agency of the United Nation, the use of older single hulled oil tankers will be suspended in April of 2005. The IMO estimate is that this accounts for 12% of the world's tanker fleet. The oldest tankers will be banned from carrying oil in 2005 and the remainder will require strict inspections and eventually taken out of service in 2010. The regulation will mismatch the supply of oil tankers and the current high demand. This mismatch will help tanker companies with the newest fleets, the greatest number of ships in the spot market, and the companies that are the taking delivery of the greatest number of ships in the near future make money.

Exhibit 4



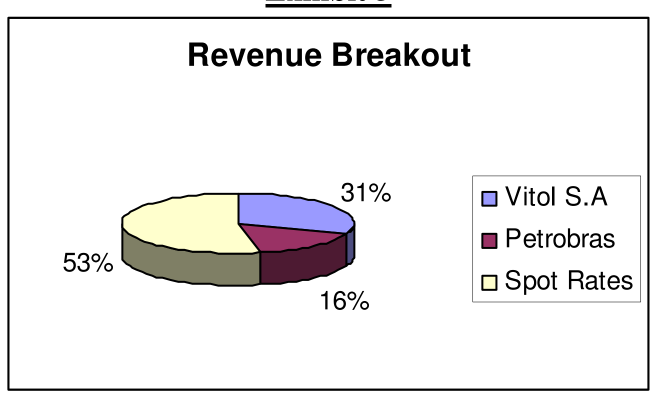
Top Tanker Business Overview

Top Tankers went public in July of 2004 and had a follow on offering of November of 2004. The company currently has 16 ships and is contracted to add 8 more tankers. The fleet will consist of 14 Handymax tankers, 9 Suezmax, and 1 Hanysize tanker for a total carrying capacity of approximately 2.03 million Dwt. The fleet will be 98.5 percent double-hull and 91.7 percent of the fleet will be sister ships. Top Tankers derives its revenue primarily from two sources: the spot rate market and the time charter market. The time charter market consists of long term contracts that provide stable cash flows and profit sharing. Currently, 47% of TOPT's revenue comes from time charter (See Exhibit 5). The three main clients of their time charter business are: Vitol S.A, Petrobras, Exxon Mobile, and Glencor.

The spot rate market provides the opportunity for higher revenues based on higher prevailing charter rates for ships. Top Tankers has now increased its spot rate exposure to 66% of its total capacity by dwt.

The combination of time charter and spot rate revenue allow Top Tankers to maintain steady cash flow while profiting for the supply shortage in the oil tanker market.

Exhibit 5



Corporate Structure

Top Tankers is incorporated in the Marshall Islands with management headquarters in Athens, Greece, and is holding company for many smaller companies. The structure is that each ship is a separate wholly-owned subsidiary incorporated in the Marshall Islands, Liberia, and Cyprus. The wholly-owned subsidiary, Top Tanker Management, acts as manager for the fleet, providing services such as managing day to day

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vessel operations including supervising the crew, supplying, maintains and dry docking of vessels, as well as providing commercial management services regarding identifying suitable vessel charter opportunities and monitoring the performance of the third party technical management subcontractors. This structure allows TOPT to minimize its tax liabilities in the United States and other countries. Due to complex tax codes, TOPT currently has an effective tax rate of zero percent.

Fiscal Year 2005

We believe that there is substantial growth potential for TOPT in fiscal year 2005. We have broken down revenue on a per ship basis in order to forecast the total revenue for the year. Some the key variables for deriving revenue are the shipping rates per class, the number of days dry docked which is incorporated in the utilization rate, the number of days in the quarter, operating costs per class type per ship per day, and general and administrative costs per ship per day. We have also forecasted interest expense based on the acquisition of ships being that 43% is paid in cash and the remainder is financed. Depreciation is based on the average cost per class of ship that has been recently paid and depreciation starts with the delivery of the ship.

TOPT has structured its recent acquisitions to include a late delivery fee. The fee is set at $29,000 per day for the each of the eight ships that have not yet been delivered. We have estimated that they will receive one ship on March 15, three ships on April 1, three ships on April 15, and one ship April 26. We estimate that they will receive $ 7,772,000 in late delivery payments.

We have estimated that TOPT will earn $245,349,172 in 2005, which will give them a net income of $100,530,973 or $3.61 EPS. This estimate relies highly on the Suezmax spot rate.

We have estimated that the average Suezmax rate for 2005 will be $58,000 per day (See Exhibit 8). The EPS is highly sensitive to this number as seen in Exhibit 6.

Exhibit 6

Suezmax Rate	EPS
$ 15,000.00	$ 0.37
$ 20,000.00	$ 0.75
$ 25,000.00	$ 1.12
$ 30,000.00	$ 1.50
$ 35,000.00	$ 1.88
$ 40,000.00	$ 2.26
$ 45,000.00	$ 2.63
$ 50,000.00	$ 3.01
$ 55,000.00	$ 3.39
$ 60,000.00	$ 3.76
$ 65,000.00	$ 4.14

Exhibit 7

	Q1	Q2	Q3	Q4	FY05
Revenue	$41,437,737	$66,067,674.3	$68,921,880	$68,921,880	$245,349,172
EPS	$0.54	$1.15	$0.96	$0.97	$3.61

Exhibit 7 illustrates revenue and EPS breakdown by quarter. The jump from Q1 to Q2 is a result of the expected delivery of seven ships in Q2.

Exhibit 8

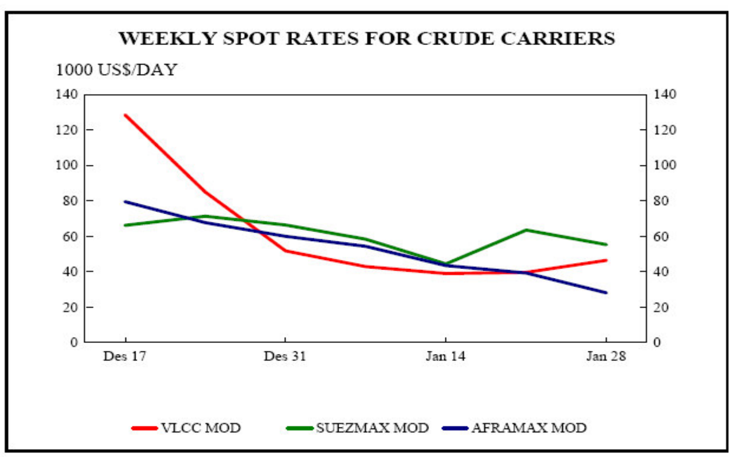

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Exhibit 8

	TOPT	TK	OSG	TNP	GMR	Industry
P/E	8.52	5.73	6.25	9.3	9.65	14.29
P/S	2.79	1.95	3.09	2.5	3	2.79
P/B	1.52	1.84	1.76	1.55	2.39	2.36
Dividend Yield	4.14	1.12	1.1	4.75	0	2.04
Sales vs 1 yr ago	306.21	40.81	78.55	32.66	100.8	67.75
EPS vs 1 yr ago	771.06	292.72	193.96	118.31	137.93	130.11
Current Ratio	3.49	1.9	3.22	1.93	1.801	2.29
Debt to Equity	0.61	1.23	0.66	0.7	0.854	0.95
Interest Coverage	7.17	6.76	6.87	NA	7.62	6.95
Operating Margin	39.74	37	62.82	49.22	38.52	30.24
Profit Margin	34.91	34.13	49.48	46.95	30.58	23.07
Effective Tax Rate	0	4.42	16.59	0	0	18.08
ROA	10.91	16.35	16.86	15.93	13.58	9.76
ROI	12.16	17.6	17.84	17.68	14.45	10.61
ROE	23.34	38.37	34.54	34.32	28.29	20.93

Comparable Analysis

Highlights

- P/E is above comps due to potential growth but still low for the industry
- Low price to book
- Dividend yield is double the industry
- Low debt to equity
- Zero tax rate

Exhibit 9

Key Assumptions for the models:	
Date of valuation	3/22/2005
Risk Free Rate:	3.60%
Equity Market Risk Premium:	7.00%
Long term inflation:	2.50%
Terminal Growth:	3.00%
Equity beta based on VL:	0.9
No. of shares (diluted):	27,830
Current Market Price per share:	$19.20

Discounted Cash Flow Analysis

Our analysis priced the intrinsic value of TOPT at $40.04 per share. However, we do not feel that the discount cash flow analysis should carry much weight in the decision to buy TOPT for these reasons: the cyclical nature of the tanker industry and the volatility of spot market prices make it increasingly difficult to predict revenue in the long-term. In our model, we decreased revenue by 4% year over year, with a terminal growth rate equal to inflation.

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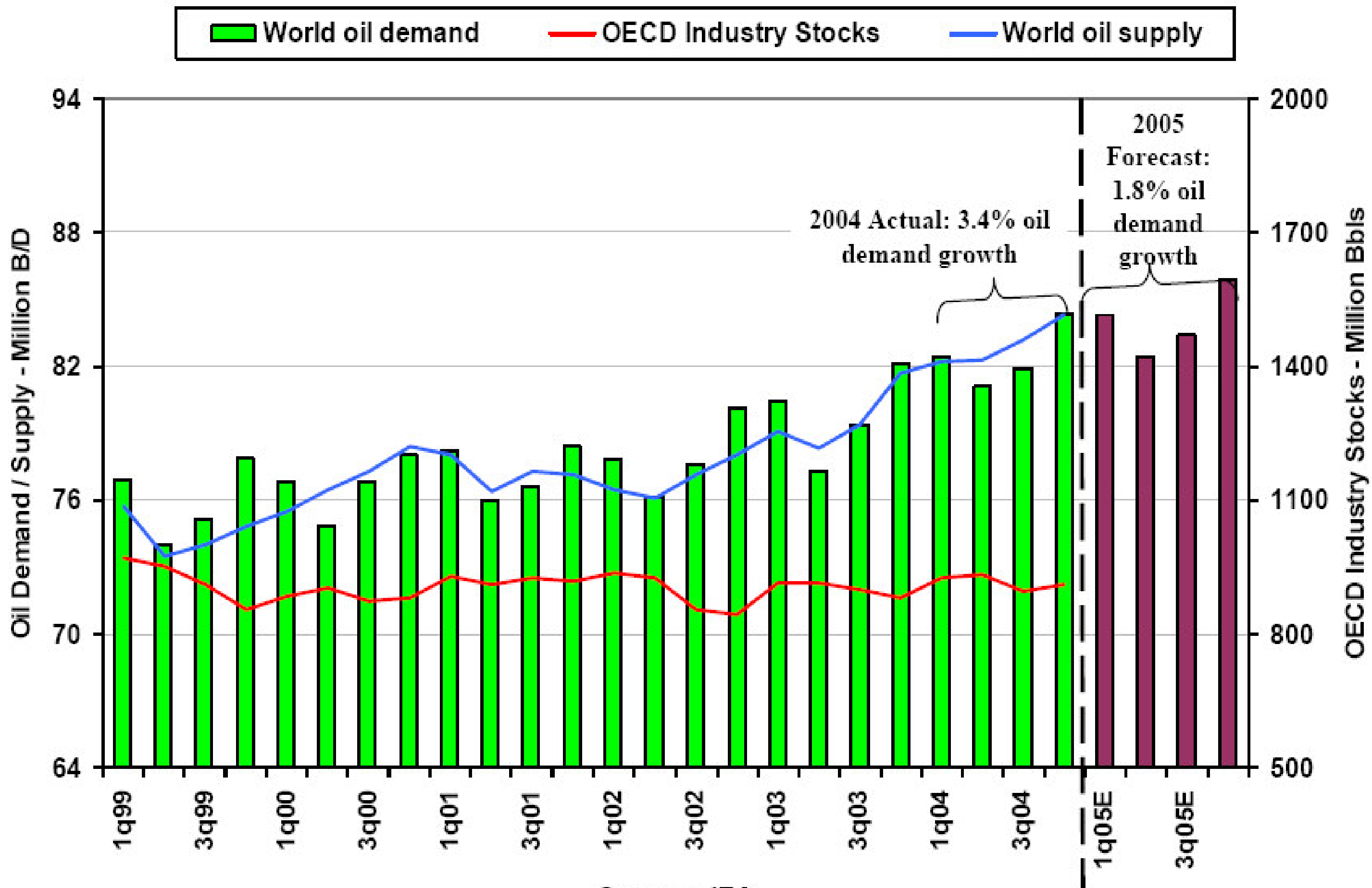
Appendix

Exhibit 10



Source : IEA

Chris Crum (ccrum@smu.edu)
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Exhibit 11

	Q1	Q2	Q3	Q4	FY05
Voyage Revenues	$ 41,474,295.00	$ 66,765,372.30	$ 68,921,880.30	$ 68,921,880.30	$ 246,083,427.90
Voyage expenses	$ 7,473,634.88	$ 12,031,066.83	$ 12,419,667.85	$ 12,419,667.85	$ 44,344,037.42
Vessel Operating Expenses	$ 7,452,100.00	$ 11,012,400.00	$ 11,555,200.00	$ 11,429,600.00	$ 41,449,300.00
General and Administrative Expenses	$ 3,543,867.00	$ 5,121,900.00	$ 5,385,312.00	$ 5,326,776.00	$ 19,377,855.00
Gain on Sale of Vessel	0	0	0	0	$ -
EBITDA	$ 23,004,693.12	$ 38,600,005.47	$ 39,561,700.45	$ 39,745,836.45	$ 140,912,235.48
Depreciation and Amortization	$ 5,970,943.77	$ 8,934,339.47	$ 9,326,626.53	$ 9,326,626.53	$ 33,558,536.29
Other Income (Expense)	$ 6,641,000.00	$ 464,000.00	0	0	$ 7,105,000.00
EBIT	$ 17,033,749.36	$ 29,665,666.00	$ 30,235,073.92	$ 30,419,209.92	$ 107,353,699.19
Interest Expense	$ 3,433,734.25	$ 3,471,886.85	$ 3,510,039.45	$ 3,510,039.45	$ 13,925,700.00
Interest Income					$ -
Total Other Expense					$ -
Foreign Currency Gains (Losses)					$ -
Tax					$ -
Net Income	$ 20,241,015.11	$ 26,657,779.15	$ 26,725,034.47	$ 26,909,170.47	$ 100,532,999.19
					$ -
EPS	$ 0.73	$ 0.96	$ 0.96	$ 0.97	$ 3.61

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Exhibit 11

Balance Sheet

	2005	2006	2007	2008
Cash and Equivalents	24,902	24,411	22,963	21,593
Accounts Receivable	-	-	-	-
Inventories	-	-	-	-
Other Current Assets	26,772	26,772	25,701	24,673
Total Current Assets	51,674	51,183	48,665	46,266
PPE and Intangibles, Net	592,189	586,300	579,880	572,883
Investments (Advances for vessel acquisitions)	-	-	-	-
Other Long Term Assets	31,619	31,619	30,354	29,140
Total Long Term Assets	623,808	617,918	610,234	602,023
Total Assets	$ 675,481	$ 669,101	$ 658,899	$ 648,289
Accounts Payable and Accrued Liabilities(DIV payal	-	-	-	-
Other Current Liabilities	52,938	52,938	50,821	48,788
Notes and LT Debt due	34,213	52,328	50,235	48,225
Total Current Liabilities	87,152	105,266	101,056	97,013
Other Long Term Liabilities	-	(1,227)	(2,355)	(2,261)
Long Term Debt	302,787	463,101	444,577	426,794
Total Long Term Liabilities	$ 302,787	$ 461,874	$ 442,221	$ 424,532
Total Stockholders' Equity	285,543	101,961	115,622	126,743
Total Liabilities and Stockholders' Equity	675,481	669,101	658,899	648,289
Total Debt for leverage calculations	337,000	515,428	494,811	475,019
Total Debt and Stock	622,543	617,390	610,433	601,762
Net Working Capital (Current Assets Minus Current	(1,265)	(1,755)	(2,156)	(2,522)
Change in Net Working Capital + Normal Cash	(128,990)	(491)	(401)	(366)

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Exhibit 12

Annual Projected Cash Flow Statement
(Dollars in Thousands)

		2005	2006	2007	2008
Net Income		100,531	114,048	100,218	93,603
Depreciation		20,308	22,136	24,128	26,299
(Increases) / Decreases in Accounts Receivable		-	-	-	-
(Increases) / Decreases in Inventories		-	-	-	-
(Increases) / Decreases in Other Current Assets		(547)	-	1,071	1,028
Increases / (Decreases) in Accounts Payable and Accrue		(5,845)	-	-	-
Increases / (Decreases) in Other Current Liabilities		35,515	-	(2,118)	(2,033)
Total Working Capital Adjustments to Net Income		29,123	-	(1,047)	(1,005)
Total Cash Generated / (Used) From Operations		149,962	136,184	123,299	118,898
Capital Expenditure on PPE & Intangible Spending		(256,500)	(16,246)	(17,709)	(19,302)
(Increase) / Decrease in Investments		25,650	-	-	-
(Increase) / Decrease in Other Net Long Term Assets		(22,237)	(1,227)	136	1,308
New Cash Generated / (Used) from Investing		(253,087)	(17,473)	(17,572)	(17,994)
Increase / (Decrease) in Total Debt		140,000	178,428	(20,617)	(19,792)
Dividends/ Repurch = EFCF		(136,742)	(297,630)	(86,557)	(82,482)
New Cash Generated / (Used) from Financing		3,258	(119,201)	(107,174)	(102,275)
Cash Balance, Beginning		124,768	24,902	24,411	22,963
Change in Cash		(99,866)	(491)	(1,448)	(1,371)
Cash Balance, Ending		24,902	24,411	22,963	21,593
Cash Balance from Balance Sheet	Check	24,902	24,411	22,963	21,593