TEEKAY SHUTTLE TANKERS L.L.C.

ANNUAL REPORT

2018

This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words "expect," "intend," "plan," "believe," "anticipate," "estimate" and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this Annual Report include, in particular, statements regarding:

- our future growth prospects, business strategy and other plans and objectives for future operations;
- future capital expenditures and availability of capital resources to fund capital expenditures;
- our ability to refinance existing debt obligations, to raise additional debt and capital (including long-term debt financing for our shuttle tanker newbuildings), to fund capital expenditures, and negotiate extensions or redeployments of existing assets;
- our ability to maintain and expand long-term relationships with major crude oil companies, including our ability to service fields until they no longer produce, and the negative impact of low oil prices on the likelihood of certain contract extensions;
- the derivation of a substantial majority of revenue from a limited number of customers;
- our ability to leverage to our advantage the expertise, relationships and reputation of Teekay Offshore Partners L.P., Teekay Corporation (Teekay Corporation and/or any one or more of its affiliates or subsidiaries referred to herein as *Teekay Corporation*) and Brookfield Business Partners L.P. together with its institutional partners (Brookfield Business Partners L.P. and/or any one or more of its affiliates referred to herein as *Brookfield*) to pursue long-term growth opportunities;
- our continued ability to enter into fixed-rate time charters;
- results of operations and revenues and expenses;
- maintaining a reduced level of vessel operating expenses, including services and spares and crewing costs;
- offshore and tanker market fundamentals, including the balance of supply and demand in the offshore and tanker market and spot tanker charter rates;
- our competitive advantage in the shuttle tanker market;
- the expected lifespan of our vessels;
- the estimated sales price or scrap value of vessels;
- our expectations as to any impairment of our vessels;
- acquisitions from third parties and obtaining offshore projects that we or Teekay Offshore Partners L.P. bid on or may be awarded;
- certainty of completion, estimated delivery and completion dates, commencement of charter, intended financing and estimated costs for newbuildings, acquisitions and upgrades;
- expected employment and trading of older shuttle tankers;
- the expectations as to the chartering of unchartered vessels;
- our expectations regarding competition in the markets we serve;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term charter contracts;
- the duration of dry dockings;
- the future valuation of goodwill;
- our compliance with covenants under our credit facilities;
- timing of settlement of amounts due to and from affiliates;
- the ability of the counterparties for our derivative contracts to fulfill their contractual obligations;
- our hedging activities relating to foreign exchange and interest rate risks;
- our exposure to foreign currency fluctuations, particularly in Norwegian Krone;
- increasing the efficiency of our business and redeploying vessels as charters expire or terminate;

- the adequacy of our insurance coverage;
- the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;
- the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business, including the expected cost to install ballast water treatment systems on our vessels in compliance with the International Marine Organization (or IMO) proposals and the effect of IMO 2020;
- anticipated taxation of us and our subsidiaries and the adequacy of our reserves to cover potential liability for additional taxes; and
- our ability to avoid labor disruptions and attract and retain highly skilled personnel.

Forward-looking statements are necessary estimates reflecting the judgment of senior management, involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to, those factors discussed below in Risk Factors.

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

BOARD OF DIRECTORS REPORT 2018

Introduction

Teekay Shuttle Tankers L.L.C. is a leading owner and operator of shuttle tankers. Teekay Shuttle Tankers L.L.C. (*Teekay Shuttle Tankers* or the *Company*) and its subsidiaries (together with the *Company*, the *Group*) was formed in July 2017 by Teekay Offshore Holdings L.L.C. (*Offshore Holdings*), a 100% owned subsidiary of Teekay Offshore Partners L.P (*Teekay Offshore* or the *Partnership*), an international midstream services provider of marine transportation, oil production, storage, long-distance towing and offshore installation and maintenance and safety services to the offshore oil industry focusing on deep-water offshore oil regions of the North Sea, Brazil and the East Coast of Canada, to expand its operations in the shuttle tanker shipping segment. Teekay Shuttle Tankers is an integral part to an oil company's value chain as a shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries.

The Group was formed by Teekay Offshore in connection with a strategic transaction between its two sponsors, Teekay Corporation, a portfolio manager of marine services to the global oil and natural gas industries, and Brookfield Business Partners L.P., a business services and industrial company focused on owning and operating high-quality businesses that benefit from barriers to entry and/or low production costs, together with its institutional partners (collectively *Brookfield*) whereby following this transaction, Brookfield owns approximately 60% and Teekay Corporation owns approximately 14% of Teekay Offshore's outstanding common units. As part of this strategic transaction, Teekay Offshore carved out its shuttle tanker business into a separate wholly owned subsidiary, Teekay Shuttle Tankers.

Teekay Shuttle Tankers' customer base consists of primarily oil majors and producers and whose vessels are operating under long-term, fixed-rate contracts of affreightment (or CoA), time-charter contracts, and bareboat contracts. The Company's core operating regions include the North Sea, Brazil and the East Coast of Canada.

Teekay Shuttle Tankers' business strategy is primarily focused on implementing existing growth projects, extending assets on long-term charters and pursuing additional strategic growth projects. The Company seeks to leverage the expertise, relationships and reputation of Teekay Offshore, Brookfield and Teekay Corporation to pursue growth opportunities in the offshore sector.

The Company's principal executive office is at 4th Floor, Belvedere Building, 69 Pitts Road, Hamilton, HM 08, Bermuda. As of December 31, 2018, the Company's fleet consisted of 33 shuttle tankers, including six newbuilding vessels under construction and two in-chartered shuttle tankers. Of the 31 owned shuttle tankers, 27 are held by wholly-owned subsidiaries and four are owned through 50%-owned subsidiaries.

Risk Factors

Risks related to the Group's business and industry

- **The Group operates in a market which is governed by regulatory regimes which may be subject to change.** If regulations to which the Group or its businesses change, or if the Group or its partners fail to abide by applicable regulations or meet applicable requirements, then the Group may lose rights, suffer fines or other penalties or otherwise incur costs. Such regulatory violations could adversely affect the Group's operations and business.

- **The Group depends on Teekay Offshore and Teekay Corporation to assist the Group in operating its businesses and competing in its markets.** Direct and indirect subsidiaries of Teekay Offshore provide to the Group certain administrative and other services. The Group's business could be harmed if such subsidiaries of the Partnership fail to perform those services satisfactorily or if they stop providing those services. In addition, the Group may receive similar services from direct and indirect subsidiaries of Teekay Corporation, either directly or through subcontracts with the Partnership.

- **The Group derives a substantial majority of its revenues from a limited number of customers, and the loss of any such customer or a contract dispute with any such customer could result in a significant loss of revenues and cash flow.** The loss of any of the Group's significant customers or a reduction in revenues from them could have a material adverse effect on the Group's business and results of operations and financial condition. The Group's future growth depends on the ability to expand relationships with existing customers and obtain new customers.

- **Market conditions may limit the Group's access to capital.** Depressed market conditions in the energy sector may significantly reduce the Group's access to capital, particularly equity capital. Debt financing or refinancing may not be available on acceptable terms, if at all. Incurring additional debt may increase the Group's leverage, susceptibility to market downturns or adversely affect its ability to pursue future growth opportunities. Lack of access to debt capital at reasonable rates could adversely affect the Group's ability to refinance debt and finance operations.

- **The Group's insurance and indemnities may not adequately cover all risks, losses or expenses.** The Group is unable or deems it commercially unreasonable to insure against all risks and may be exposed under certain circumstances to uninsurable hazards, losses and risks. None of the Group's shuttle tankers are currently insured against loss of revenues resulting from vessel off-hire time, based on the cost of insurance compared to the Group's off-hire experience. Accordingly, the Group could incur substantial losses if an event which is not fully covered by insurance occurs, which could have a material adverse effect on the Group's business, results of operations and financial condition.

- **A continuation of the significant declines in oil prices may adversely affect the Group's growth prospects and results of operations.** Oil prices have significantly declined since mid-2014. A decline in oil prices can impact offshore production over the medium to long-term, which may affect the Group's business, results of operations and financial condition.

- **Continuing revenue under life-of-field contracts depends upon continuing field operations and under other charter contracts will depend upon renewals or contract extensions.** The duration of some of the shuttle tanker contracts of the Group is the life of the relevant oil field or is subject to extension by the field operator or vessel charterer. If the oil field no longer produces oil or is abandoned or the contract term is not extended, or the applicable contract renewed, the relevant Group entity will no longer generate revenue under the related contract and will need to seek to redeploy affected vessels. If the Group entity is unable to promptly redeploy any affected vessels at rates at least equal to those under the prior contracts, if at all, the Group's operating results could be harmed. Fluctuations in the utilization of the Group's vessels may adversely affect its results of operations and financial condition.

- **The Group may experience operational problems with vessels that reduce revenue and increase costs.** Shuttle tankers are complex and their operations are technically challenging and require substantial capital expenditures. Operational problems or an aging fleet may lead to loss of revenue or higher than anticipated operating expenses or require additional capital expenditures. Any of these results could harm the Group's business, financial condition and operating results.

- **The nature of the Group's operations exposes it to a wide range of environmental regulations that could result in significant environmental liabilities.** The Group's operations are subject to local, national and international environmental regulations. The costs of compliance associated with environmental regulations and changes thereto could require significant expenditures, and failure to comply with such regulations could result in the imposition of material fines and penalties or temporary or permanent suspension of operations. An incident involving environmental contamination could also harm the Group's reputation and business.

- **The Group is dependent on experienced managers and employees.** The Group is dependent upon those individuals providing to it senior management functions and services and employees having relevant experience. Pursuant to services agreements, subsidiaries of the Partnership and of Teekay Corporation, provide substantially all of the Group's managerial, operational and administrative services and other technical and advisory services. The loss of the key personnel providing such services and the failure to successfully recruit replacements in a timely manner, or at all, could have a material adverse effect on the Group's business, financial condition and results of operations.

- **The Group is subject to financial restrictions and covenants.** The operating and financial restrictions and covenants in the Company's or the Group's financing arrangements and any future financing agreements may restrict the Group's business activities, could adversely affect the Group's ability to finance future operations or capital needs or to engage, expand or pursue its business activities, and these restrictions and covenants could also affect the ability of the Company's subsidiaries to pay dividends and make distributions to the Company, thus adversely affecting its cash flow.

- **The Group may be adversely affected by global economic conditions.** Any deterioration of the global economic environment, particularly in Brazil, Norway and Canada (the "Primary Jurisdictions"), could have a material adverse effect on the Group's business, results of operations or financial condition, particularly to the extent it affects the Group's ability to access the capital markets or obtain credit for future funding on commercially acceptable terms.

- **The Group may be exposed to fluctuations in currency exchange rates.** The Group may be exposed to currency and exchange rate fluctuations which may affect the Group's results of operations.

- **The Group may be unable to realize expected benefits from any acquisitions of vessels.** Any acquisition of a vessel may not be profitable at or after the time of acquisition and may not generate cash flow sufficient to justify the investment. Unlike newbuilding vessels, existing vessels typically do not carry warranties as to their condition. While the Group will likely inspect any existing vessels prior to purchase, such inspection would normally not provide the Group with as much knowledge of the vessel's condition as it would possess if the vessel had been built for the Group and operated by it during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels operated by the Group since they were built. These costs could decrease the Company's cash flow and reduce its liquidity.

- **The Group may be subject to legal, governmental, regulatory or arbitration proceedings that could have a material adverse effect on its business, financial position, results of operations and cash flows.** The Group may be involved in material litigation, claims and disputes in the future, which may involve claims for significant monetary amounts, some of which may not be covered by insurance, or which could impose restrictions on the Group's business operations, which claims or outcomes could have a material adverse effect on the Group's reputation, business, financial position and results of operations.

- **Marine transportation is inherently risky, particularly in the extreme conditions in which many of the Group's vessels will operate.** An incident involving significant loss of product or environmental contamination by any of the vessels could harm the Group's reputation and business. Events such as marine disasters, adverse weather, mechanical failures, grounding, capsizing, fire, explosions and collisions, piracy, cyber attacks, human error, and war and terrorism may damage vessels and their cargoes and oil production facilities. Accidents may cause death or injury to persons, loss of property, damage to the environment and natural resources, delays in the delivery of cargo, loss of revenues from charters or contract of affreightment, liabilities or costs to recover any spilled oil or other petroleum products, liabilities or costs to restore the eco-system affected by the spill, governmental fines, penalties or restrictions on conducting business, higher insurance rates, and damage to reputation and customer relationships generally, any of which could have a material adverse effect on the Group's business, financial condition and operating results. In addition, any damage to, or environmental contamination involving, oil production facilities serviced could suspend that service and result in loss of revenues.

- **Competition and other factors may affect demand for the Group's services.** The demand for the Group's services may be volatile and will be subject to variations for a number of reasons, including factors such as uncertainty in demand for the relevant products, declines in oil and natural gas markets, competition (including by other companies that may have greater resources than the Group), slowdowns in economic activities, or regulatory changes. Subject to the terms of an omnibus agreement between Teekay Corporation, the Partnership and its general partner and other affiliates of Teekay Corporation, Teekay Corporation and its affiliates may engage in competition with the Group.

- **Fluctuations in interest rates may materially affect the Group's operating results.** The Group is exposed to the impact of interest rate changes, primarily through the Group's floating-rate borrowings that require the Group to make interest payments based on LIBOR. If interest rates increase, the Group's debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and the Group's net income and cash available for servicing our indebtedness would decrease. The Group may or may not hedge its floating interest rate exposure under existing or future financing arrangements.

- **The results of the Group's shuttle tanker operations in the North Sea are subject to seasonal fluctuations.** Due to harsh winter weather conditions, oil field operators in the North Sea typically schedule oil platform and other infrastructure repairs and maintenance during the summer months. Because the North Sea is one of the Group's primary existing offshore oil markets, this seasonal repair and maintenance activity contributes to quarter-to-quarter volatility in the Group's results of operations, as oil production typically is lower in the second and third quarters in this region compared with production in the first and fourth quarters. Because a portion of the Group's North Sea shuttle tankers operate under CoAs, under which revenue is based on the volume of oil transported, the results of these shuttle tanker operations in the North Sea under these contracts generally reflect this seasonal pattern of transport demand. Additionally, when the Group redeploys affected shuttle tankers as conventional oil tankers while platform maintenance and repairs are conducted, the overall financial results for the North Sea shuttle tanker operations may be negatively affected as the rates in the conventional oil tanker markets are usually lower than CoA rates. In addition, the Group seeks to coordinate some of the general dry-docking schedule of its fleet with this seasonality, which may result in lower revenues and increased dry-docking expenses during the summer months.

- **The Group may not be able to generate sufficient cash to service all of its indebtedness and may be forced to take other actions to satisfy the obligations under its indebtedness, which may not be successful.** Given volatility associated with the Group's business and industry, the Group's future cash flow may be insufficient to meet the Group's debt obligations and other commitments. Any insufficiency could negatively impact the Group's business. A range of economic, competitive, business and industry factors, including those beyond the Group's control, will affect future financial performance, and, as a result, the Group's ability to generate cash flow from operations and to pay the Group's debt obligations. If the Group's cash flows and capital resources are insufficient to fund the Group's debt service obligations and other commitments, the Group may be forced to reduce or delay planned investments and capital expenditures, or to sell assets, seek additional financing in the debt or equity markets or restructure or refinance the Group's indebtedness. The Group's ability to restructure or refinance its indebtedness will depend on the condition of the capital markets and the Group's financial condition at such time. Any refinancing of the Group's indebtedness could be at higher interest rates and may require the Group to comply with more onerous covenants, which could further restrict the Group's business operations. In addition, any failure to make payments of interest and principal on the Group's outstanding indebtedness on a timely basis would likely result in a reduction of the Group's credit rating, which could harm the Group's ability to incur additional indebtedness. In the absence of sufficient cash flows and capital resources, the Group could face substantial liquidity problems and may be required to dispose of material assets or operations to meet the Group's debt service and other obligations. The Group may not be able to consummate those dispositions or to obtain the proceeds that the Group could have realized from them and any proceeds may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit the Group to meet our debt service obligations.

- **The international nature of the Group's operations may make the outcome of any bankruptcy proceedings difficult to predict.** The Company was formed under the laws of the Republic of the Marshall Islands and the Subsidiaries were formed or incorporated under the laws of the Marshall Islands, Norway, Singapore and certain other countries besides the United States, and the Group conducts operations in countries around the world. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving the Group or any of our subsidiaries, bankruptcy laws other than those of the United States could apply. We have limited operations in the United States. If we become a debtor under U.S. bankruptcy law, bankruptcy courts in the United States may seek to assert jurisdiction over all of the Group's assets, wherever located, including property situated in other countries. There can be no assurance, however, that the Group would become a debtor in the United States, or that a U.S. bankruptcy court would be entitled to, or accept, jurisdiction over such a bankruptcy case, or that courts in other countries that have jurisdiction over the Group and the Group's operations would recognize a U.S. bankruptcy court's jurisdiction if any other bankruptcy court would determine it had jurisdiction.

- **A cyber-attack could materially disrupt the Group's business.** The Group relies on information technology systems and networks in our operations and the administration of the Group's business. Cyber-attacks have increased in number and sophistication in recent years. The Group's operations could be targeted by individuals or groups seeking to sabotage or disrupt the Group's information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt the Group's operations, including the safety of the Group's operations, or lead to unauthorized release of information or alteration of information on the Group's systems. Any such attack or other breach of our information technology systems could have a material adverse effect on the Group's business and results of operations.

- **The Group's failure to comply with data privacy laws could damage the Group's customer relationships and expose the Group to litigation risks and potential fines.** Data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which the Group provides services and continues to develop in ways which we cannot predict, including with respect to evolving technologies such as cloud computing. The European Union has adopted the General Data Privacy Regulation (or *GDPR*), a comprehensive legal framework to govern data collection, use and sharing and related consumer privacy rights which took effect in May 2018. The GDPR includes significant penalties for non-compliance. The Group's failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to the Group's reputation in the marketplace, which could have material adverse effect on the Group's business, financial condition and results of operations.

Risks related to the countries in which the Group operates

- **Political and economic policies of the governments of the Primary Jurisdictions may affect the Group's business and results of operations**. A substantial portion of the Group's principal assets and operations are located in the Primary Jurisdictions. Any adverse change in the economic conditions or political environment or government policies in the Primary Jurisdictions could have a material adverse effect on the overall economic growth and the level of investments and expenditures in the Primary Jurisdictions, which in turn could lead to a reduction in demand for shuttle tanker services and, consequently, have a material adverse effect on the Group's business, financial condition and results of operations. If the governments of the Primary Jurisdictions should impose greater restrictions on foreign companies and investors, the Group's business, financial condition and results of operations could be materially and adversely affected.

- **Allegations of improper payments may harm the Group's reputation and business.** The Group may be subject to allegations of improper payments made to authorities at state-controlled enterprises in Brazil or other jurisdictions. In spite of the Group's policy of observance of the highest ethical standards, any such allegation, were it to be substantiated, may give rise to penalties, fines or contract disputes, any of which could materially and adversely affect the Group's business, financial condition and results of operations. Any such allegation, whether or not substantiated, could harm the Group's reputation. In May 2016, a former executive of Transpetro, the transportation and logistics subsidiary of Petrobras, alleged in a plea bargain that a subsidiary of Teekay Corporation that is now a subsidiary of the Company, along with other shipping companies, purportedly made improper payments to local Brazilian agents between 2004 and 2006 in an aggregate amount of approximately 1.5 million Brazilian Reals (less than $0.4 million at the December 31, 2018 exchange rate). It is uncertain how these allegations may affect the Group, if at all.

- **Uncertainties with respect to the legal systems of the Primary Jurisdictions could limit the protections available to the Group.** The Group's primary material agreements and operations are governed by laws which may be subject to uncertain interpretation. A substantial portion of the Group's assets and operations are located or conducted in the Primary Jurisdictions. If disputes arise in connection with the Group's assets or operations, the Group may be subject to the jurisdiction of the Primary Jurisdictions or other foreign courts or arbitration tribunals and may not be successful in subjecting foreign persons, especially foreign oil ministries and national oil companies, to the legal jurisdiction of the Primary Jurisdictions or other, desired legal jurisdictions. The uncertainties under the laws of the Primary Jurisdictions, or the laws of other relevant countries, may impede the Group's ability to enforce the terms of any agreements entered into with the Group's partners, service providers and suppliers that are governed by the laws of the Primary Jurisdictions or other relevant countries.

- **Risk of war, other armed conflicts, piracy, increased hostilities and terrorist attacks**. War, military tension, revolutions, piracy and terrorist attacks, or increases in such events or activities, could create or increase instability in the world's financial and commercial markets. This may significantly increase political and economic instability in some of the geographic markets in which the Group operates or may operate in the future, and may contribute to high levels of volatility in charter rates or oil prices. In addition, oil facilities, shipyards, vessels, pipelines, oil fields or other infrastructure could be targets of future terrorist attacks or warlike operations and the Group's vessels could be targets of pirates, hijackers, terrorists or others. Armed conflicts, piracy, increased hostilities, terrorism and their effects on the Group or its markets may materially and adversely affect the Group's business, financial position and operating results.

Risks related to the taxation of the Group

- **The Issuer and its Subsidiaries may be subject to taxes in certain jurisdictions, which may reduce cash available for, inter alia, debt service.** The Group is subject to taxation in certain jurisdictions in which its members are organized, own assets or have operations, which could reduce the amount of cash available to service its debt obligations, and for other purposes.

- **Future changes in tax legislation applicable to Group Companies may reduce net revenues.** The Group includes entities incorporated and resident for tax purposes in several different jurisdictions. Any changes to tax legislation or practices in jurisdictions in which the Group entities are resident for tax purposes may have a material adverse effect on the operating results or financial position of the Group.

Description of the Business

A shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were developed in the North Sea as an alternative to pipelines. The first cargo from an offshore field in the North Sea was shipped in 1977, and the first dynamically-positioned shuttle tankers were introduced in the early 1980s. Shuttle tankers are often described as "floating pipelines" because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor.

The Group’s shuttle tankers are primarily subject to long-term, fixed-rate time-charter contracts for a specific offshore oil field or under contracts of affreightment for various fields. The number of voyages performed under these contracts of affreightment normally depends upon the oil production of each field. Competition for charters is based primarily upon price, availability, the size, technical sophistication, age and condition of the vessel and the reputation of the vessel’s manager. Although the size of the world shuttle tanker fleet has been relatively unchanged in recent years, conventional tankers could be converted into shuttle tankers by adding specialized equipment to meet customer requirements. Shuttle tanker demand may also be affected by the possible substitution of sub-sea pipelines to transport oil from offshore production platforms. The shuttle tankers in our contract of affreightment fleet may operate in the conventional spot market during downtime or maintenance periods for oil field installations or otherwise, which provides greater capacity utilization for the fleet.

Operations and fleet

The following table provides additional information about the Group's shuttle tankers, including newbuildings, as of December 31, 2018:

Vessel	Capacity (dwt)	Built	Ownership	Positioning System	Operating Region	Contract Type[1]	Charterer	Contract End Date
Scott Spirit	109,300	2011	100%	DP2	North Sea	CoA	BP, Chevron, Draugen Transport, Aker BP, Total, Repsol, Dana Petroleum, OMV, Wintershall, Idemitsu, DEA, Lundin, ConocoPhillips PGING, Enquest, Premier Oil, Shell, Equinor, Taqa Bratani, Nautical, Dyas, Molgrowest[2]	
Amundsen Spirit	109,300	2010	100%	DP2	North Sea	CoA		
Grena Knutsen	148,600	2003	In-chartered (until September 2019)	DP2	North Sea	CoA		
Stena Natalita	108,100	2001	50%[3]	DP2	North Sea	CoA		
Navion Oslo	100,300	2001	100%	DP2	North Sea	CoA		
Navion Oceania	126,400	1999	100%	DP2	North Sea	CoA		
Navion Hispania	126,200	1999	100%	DP2	North Sea	CoA		
Heather Knutsen	148,600	2005	In-chartered (until February 2020)	DP2	North Sea	CoA		
Samba Spirit	154,100	2013	100%	DP2	Brazil	TC	Shell	June 2023
Lambada Spirit	154,000	2013	100%	DP2	Brazil	TC	Shell	August 2023
Bossa Nova Spirit	155,000	2013	100%	DP2	Brazil	TC	Shell	November 2023
Sertanejo Spirit	155,000	2013	100%	DP2	Brazil	TC	Shell	January 2024
Peary Spirit	109,300	2011	100%	DP2	North Sea	TC	Equinor [4]	March 2019
Nansen Spirit	109,300	2010	100%	DP2	North Sea	TC	Equinor [4]	March 2019
Stena Sirita	126,900	1999	50%[3]	DP2	North Sea	TC	Esso	August 2019
Navion Anglia	126,400	1999	100%	DP2	North Sea	TC	Equinor [4]	March 2019
Beothuk Spirit	148,200	2017	100%	DP2	Canada	TC	ExxonMobil, Canada Hibernia, Chevron, Husky, Mosbacher, Murphy, Nalcor, Equinor, Suncor[2]	May 2030
Norse Spirit	148,200	2017	100%	DP2	Canada	TC		May 2030
Dorset Spirit	148,200	2018	100%	DP2	Canada	TC		May 2030
Navion Gothenburg	152,200	2006	50%[3]	DP2	Brazil	BB	Petrobras[5]	July 2020
Navion Stavanger	148,700	2003	100%	DP2	Brazil	BB	Petrobras[5]	July 2019
Petroatlantic	93,000	2003	100%	DP2	North Sea	TC	Teekay Corporation	March 2022
Petronordic	93,000	2002	100%	DP2	North Sea	TC	Teekay Corporation	March 2022
Navion Bergen	105,600	2000	100%	DP2	Brazil	BB	Petrobras[5]	April 2020
Nordic Brasilia	151,300	2004	100%	DP	Far-East	Spot		
Nordic Rio	151,300	2004	50%[3]	DP	Far-East	Spot		
Aurora Spirit[6]	129,830	2019	100%	DP2	North Sea	NB		
Rainbow Spirit[6]	129,830	2020	100%	DP2	North Sea	NB		
Tide Spirit[6]	129,830	2020	100%	DP2	North Sea	NB		
Current Spirit[6]	129,830	2020	100%	DP2	North Sea	NB		
SHI Hull No. 2286[6]	103,500	2020	100%	DP2	North Sea	NB		
SHI Hull No. 2287[6]	103,500	2021	100%	DP2	North Sea	NB		
Nordic Spirit	151,300	2001	100%	DP	Far-East	Lay-up		
Total capacity	4,284,120							

(1) “CoA” refers to contracts of affreightment, "TC" refers to time charters, "BB" refers to bareboat charters, "NB" refers to newbuilding.

(2) Not all of the contracts of affreightment or time-charter customers utilize every ship in the contract of affreightment or time-charter fleet.

(3) Owned through a 50% owned subsidiary. The parties share in the profits and losses of the subsidiary in proportion to each party’s relative ownership.

(4) Under the terms of a master agreement with Equinor, the vessels are chartered under individual fixed-rate annually renewable time-charter contracts. The number of vessels may be adjusted annually based on the requirements of the fields serviced. It is expected that between one and three vessels will be required by Equinor annually. The vessels currently on time-charter to Equinor may be replaced by vessels currently servicing contracts of affreightment or other time-charter contracts.

(5) Charterer has the right to purchase the vessel at end of the bareboat charter.

(6) Four of the six Samsung newbuildings will operate in the North Sea contract of affreightment fleet and two will operate under the master agreement with Equinor.

Market

As of December 31, 2018, there were approximately 92 vessels in the world shuttle tanker fleet (including 19 newbuildings), the majority of which operate in the North Sea and Brazil. Shuttle tankers also operate off the East Coast of Canada and in the U.S. Gulf. As of December 31, 2018, the Group owned 31 shuttle tankers (including six vessels under construction), in which its ownership interests ranged from 50% to 100%, and chartered-in an additional two shuttle tankers. Other shuttle tanker owners include Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, SCF Group, Viken Shipping and AET, which as of December 31, 2018 controlled fleets ranging from 5 to 35 shuttle tankers each. The Group believes that it has competitive advantages in the shuttle tanker market as a result of the quality, type and dimensions of its vessels combined with its market share in the North Sea, Brazil and the East Coast of Canada.

On the Norwegian continental shelf, regulations have been imposed on the operators of offshore fields related to vaporized crude oil that is formed and emitted during loading operations and which is commonly referred to as Volatile Organic Compounds (or *VOC*). To assist the oil companies in their efforts to meet the regulations on VOC emissions from shuttle tankers, Teekay Shuttle Tankers, Teekay Offshore and Teekay Corporation have played an active role in establishing and participating in a unique co-operation among 25 owners of offshore fields in the Norwegian sector. The purpose of the co-operation is to implement VOC reduction systems on selected shuttle tankers to reduce and report VOC emissions according to Norwegian authorities' requirements. Currently, the Group owns VOC systems on 8 of its shuttle tankers. In addition, four of the newbuildings on order will have VOC recovery units installed. The oil companies that participate in the co-operation have also engaged a subsidiary of Teekay Shuttle Tankers to undertake the day-to-day administration, technical follow-up and handling of payments through a dedicated clearing house function.

Historically, the utilization of shuttle tankers in the North Sea is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to vessels and to the offshore oil platforms. Downtime for repairs and maintenance generally reduces oil production and, thus, transportation requirements.

Market Risks

Interest Rate Risk

The Group is exposed to the impact of interest rate changes, primarily through our floating-rate borrowings that require us to make interest payments based on LIBOR. Significant increases in interest rates could adversely affect operating margins, results of operations and our ability to service our debt. From time to time, we use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt.

The table below provides information about financial instruments as at December 31, 2018, that are sensitive to changes in interest rates. For long-term debt, the table presents principal payments and related weighted-average interest rates by expected contractual maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

Expected Maturity Date

	2019	2020	2021	2022	2023	There-after	Total	Fair Value Liability	Rate[(1)]
	(in millions of U.S. dollars, except percentages)								
Long-Term Debt:									
Variable Rate ($U.S.)[(2)]	127.9	142.1	149.5	189.8	133.4	91.0	833.7	841.5	5.5%
Fixed Rate ($U.S.)	15.3	14.2	18.1	253.7	14.1	58.5	373.9	356.1	6.4%
Interest Rate Swaps:									
Contract Amount[(3)]	—	—	—	100.0	—	—	100.0	1.5	2.1%
Average Fixed Pay Rate[(2)]	—	—	—	2.1%	—	—	2.1%		

(1) Rate relating to long-term debt refers to the weighted-average effective interest rate for our debt, including the margin paid on our floating-rate debt. Rate relating to interest rate swaps refers to the average fixed pay rate for interest rate swaps. The average fixed pay rate for interest rate swaps excludes the margin paid on the floating-rate debt, which at December 31, 2018, ranged from 1.85% to 4.30%.

(2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR.

(3) The average variable receive rate for interest rate swaps is set quarterly at the 3-month LIBOR.

Foreign Currency Fluctuation Risk

The Group's functional currency is the U.S. Dollar because most of our revenues and operating costs are in U.S. Dollars. We incur certain vessel operating expenses, general and administrative expenses and a portion of our capital upgrade projects in foreign currencies, the most significant of which is the Norwegian Krone and, to a lesser extent, the Brazilian Real, British Pound, Euro, Canadian Dollar and Singapore Dollar. There is a risk that currency fluctuations will have a negative effect on the value of cash flows.

We may continue to seek to hedge these currency fluctuation risks in the future. At December 31, 2018, we were committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (in thousands)	Fair Value / Carrying Amount of Asset/(Liability) (in thousands of U.S. Dollars)	Average Forward Rate(1)	Expected Maturity	
				2019	2020
				(in thousands of U.S. Dollars)	
Norwegian Krone	230,000	(2,306)	8.01	25,609	3,095

(1) Average forward rate represents the contracted amount of foreign currency one U.S. Dollar will buy.

Commodity Price Risk

The Group is exposed to changes in forecasted bunker fuel costs for certain vessels being time-chartered-out and for vessels servicing certain contracts of affreightment. We may use bunker fuel swap contracts as economic hedges to protect against changes in bunker fuel costs. As at December 31, 2018, we were not committed to any bunker fuel swap contracts.

Financial Risk

The Group is exposed to credit risk and liquidity risk. The Group’s overall risk management program focuses on the uncertainty of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. We are exposed to credit loss in the event of non-performance by the counterparties to the derivative financial instruments.

Certain of the Group’s revolving credit facility, term loans and bonds contain covenants, debt-service coverage ratio (or *DSCR*) requirements and other restrictions typical of debt financing secured by vessels that restrict the ship-owning subsidiaries from, among other things: incurring or guaranteeing indebtedness; changing ownership or structure, including mergers, consolidations, liquidations and dissolutions; paying dividends or distributions if the Company is in default or do not meet minimum DSCR requirements; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; or entering into a new line of business. Obligations under the Group’s credit facilities are secured by certain vessels, and if the Group is unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets. The Group’s primary sources of liquidity are cash and cash equivalents and cash flows provided by the Group’s operations. Volatility in the shuttle tanker market may affect the Group’s cash flow from operations and in turn its liquidity risk.

At the end of 2018, the Group had six shuttle tanker newbuilding vessels under construction. The Group has dedicated on-site personnel who supervise the building process. There is performance risk associated with the newbuilding vessels.

There were no major unforeseen events of a financial nature during the year ended December 31, 2018. The Group expects to manage its working capital with net operating cash flow, including extensions and redeployment of existing assets, debt financing and re-financings and existing liability. However, there can be no assurance that any such funding will be available to the Group on acceptable terms, if at all. During 2018, the Group secured a debt facility providing total borrowings of up to $60.5 million for the shuttle tanker newbuilding vessel construction payments, of which $40.4 million was undrawn as at December 31, 2018. In April 2019, the Company secured a debt facility providing total borrowings of $413.8 million related to the first four shuttle tanker newbuilding vessels and expects to secure additional financing for the remaining two vessels. The Company expects to draw on this facility in late-April 2019.

Review of 2018

In March 2018, the Group took delivery of the last of the three East Coast of Canada shuttle tanker newbuildings, the *Dorset Spirit*, which commenced operations in May 2018 on a 15-year charter contract (of which 12 years remain), plus extension options, with a group of oil companies. The *Dorset Spirit* replaced an existing owned vessel servicing the East Coast of Canada, which existing vessel was repositioned to the North Sea to operate in the Group's CoA fleet.

In March 2018, the Group refinanced the term loan outstanding for the three shuttle tankers operating on the East Coast of Canada for the aggregate amount of $265.8 million. The term loan consists of three tranches that reduce over time with semi-annual payments, have varying maturity through 2030 and are collateralized by first-priority mortgages on the vessels.

In June 2018, the Group delivered the *Navion Britannia* to its buyers. The Group received net proceeds of $10.4 million, resulting in a gain on sale of approximately $2.5 million recorded during the second quarter of 2018.

In July 2018, the Group entered into shipbuilding contracts with Samsung Heavy Industries Co. Ltd. to construct two LNG-fueled Aframax DP2 shuttle tanker newbuildings, for an aggregate fully built-up cost of $270 million. These newbuildings will be constructed based on our *New Shuttle Spirit* design which incorporates technologies intended to increase fuel efficiency and reduce emissions, including LNG propulsion technology. Upon delivery in late-2020 through early-2021, these vessels will join the Group's CoA shuttle tanker portfolio in the North Sea. The Group current has a total of six newbuilding shuttle tankers under construction.

In August 2018, the Group delivered the *Stena Spirit* to its buyers. The Group received net proceeds of $8.8 million, resulting in a gain on sale of approximately $0.4 million recorded during the third quarter of 2018, which is included in a 50%-owned subsidiary.

In October 2018, the Group delivered the *Stena Alexita* to a subsidiary of Teekay Offshore for net proceeds of $8.5 million, which is accounted for as an equity contribution of $1.0 million and is included in a 50%-owned subsidiary.

In October 2018, the Group entered into a settlement agreement with Petróleo Brasileiro S.A. and Petroleo Netherlands B.V. - PNBV S.A. with respect to the dispute relating to the previously-terminated charter contract of the *HiLoad DP* unit. As part of the settlement agreement, Petrobras agreed to pay $55.0 million which was received in the fourth quarter of 2018.

In October 2018, the Group secured a debt facility providing total borrowings of up to $60.5 million for the newbuilding payments, of which $40.4 million was undrawn as at December 31, 2018. The facility matures in April 2019. In April 2019, the Group secured a term loan totaling $413.8 million related to the first four shuttle tanker newbuilding vessels and expects to secure additional long-term debt for the remaining two newbuilding vessels. The Company expects to draw on this facility in late-April 2019.

In November 2018, the Group delivered the *Navion Scandia* to its buyers. The Group received net proceeds of $10.8 million, resulting in a gain on sale of approximately $2.8 million recorded during the fourth quarter of 2018.

Financial Review

The consolidated financial statements for the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017 have been prepared in accordance with the United States generally accepted accounting principles. The non-consolidated financial statements for the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017 have been prepared in accordance with the International Financial Reporting Standards. Except where specifically identified, the financial information presented below has been prepared on a consolidated basis.

Income Statement

Revenues, expenses and operating cash flows have generally increased in 2018 when compared to the period reported from the date of incorporation on July 5, 2017 to December 31, 2017 as the Group had nominal operations until October 3, 2017 when the Company acquired the Subsidiaries from Teekay Offshore.

Revenues for the year ended December 31, 2018 and from the date of incorporation on July 5, 2017 to December 31, 2017 were $632.8 million and $130.8 million, respectively. Income from vessel operations for the year ended December 31, 2018 and from the date of incorporation on July 5, 2017 to December 31, 2017 was $94.1 million and $15.5 million, respectively. Revenues for the year ended December 31, 2018 includes $55.0 million related to a settlement agreement with Petróleo Brasileiro S.A. (*Petrobras*) in relation to the previously-terminated charter contract for the *HiLoad DP* unit, which was settled and paid in November 2018. The charter agreement for the HiLoad DP unit is with a subsidiary of the Company. The Company recognized a time-charter hire expense with a subsidiary of Teekay Offshore, which is the legal entity that owns the *HiLoad DP* unit for previously unpaid amounts.

Voyage expenses, which primarily represent bunker fuels costs and are substantially reimbursed from the charterers of the Group's vessels, for the year ended December 31, 2018 and from the date of incorporation to December 31, 2017 were $109.4 million and $21.8 million, respectively.

Depreciation and amortization for the year ended December 31, 2018 and from the date of incorporation to December 31, 2017 was $154.7 million and $32.8 million, respectively. The Group considered challenges associated with shuttle tankers that have approached 20 years of age in recent years and reassessed the useful life of the tanker component to 20 years. This change in estimate, which commenced as of January 1, 2018, impacted 21 vessels in the Company's shuttle tanker fleet. The effect of this change in estimate was an increase in depreciation and amortization expense and net loss of $15.7 million for the year ended December 31, 2018.

Write-down and loss on sale of vessels for the year ended December 31, 2018 and from the date of incorporation to December 31, 2017 was $24.0 million and $0.2 million, respectively. During 2018, the carrying value of the *Nordic Spiritt* and *Stena Spirit* shuttle tankers were written down to their estimated fair values, using appraised values, due to the redelivery of these vessels from their charterer after completing their bareboat charter contracts in May 2018 and the resulting change in expectations for the future opportunities for the vessels. The write-down related to these vessels was $29.7 million, of which $14.8 million was included in a 50%-owned subsidiary.

Income (loss) before income tax expense for the year ended December 31, 2018 and from the date of incorporation on July 5, 2017 to December 31, 2017 was $18.2 million and ($6.9) million, respectively.

Interest expense for the year ended December 31, 2018 and for the period from the date of incorporation on July 5, 2017 to December 31, 2017 was $74.2 million and $19.1 million, respectively.

Net income (loss) attributable to the member of the Company for the year ended December 31, 2018 and from the date of incorporation on July 5, 2017 to December 31, 2017 was $10.9 million and ($5.5) million, respectively.

Balance Sheet

Total assets as of December 31, 2018 and 2017 was $1,890.7 million and $2,018.7 million, respectively. The decrease is primarily due to settlements of amounts due from affiliates and depreciation expense of $154.7 million for the year ended December 31, 2018 partially offset by advances on newbuilding contracts. Total equity as of December 31, 2018 and 2017 was $508.6 million and $532.9 million, respectively.

Cash Flow

Net operating cash inflows (outflows) for the year ended December 31, 2018 and from the date of incorporation on July 5, 2017 to December 31, 2017 were $204.8 million and ($97.6) million, respectively. The increase in operating cash flows was primarily due to settlements of balances with affiliates, timing of payments made to vendors and payments received from customers and a full year of operations in 2018.

Net financing cash (outflows) inflows for the year ended December 31, 2018 and from the date of incorporation on July 5, 2017 to December 31, 2017 were ($86.6) million and $239.0 million, respectively. Net proceeds from the issuance of long-term debt for the year ended December 31, 2018 mainly related to the refinancing of a term loan and the drawdown of two new term loans. Net proceeds from the date of incorporation on July 5, 2017 to December 31, 2017 mainly related to the drawdown of the $600 million revolving credit facility, a term loan and the issuance of $250 million in senior unsecured bonds in the Norwegian bond market.

Scheduled repayments of long-term debt were $144.3 million during 2018 and $77.1 million from the date of incorporation on July 5, 2017 to December 31, 2017. Repayments during 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017 mainly relate to the repayment of the revolving credit facility and the repayment of four existing debt facilities. Cash distributions paid to the member of the company totaled $34.0 million in 2018 and nil for the period from the date of incorporation on July 5, 2017 to December 31, 2017.

Net investing cash outflows for the year ended December 31, 2018 were $115.3 million, primarily from installment payments of $146.3 million on the six current shuttle tanker newbuildings, partially offset by proceeds of $30.0 million from the sale of the *Navion Scandia, Navion Britannia,* and *Stena Spirit* shuttle tankers.

Net investing cash outflows for the period from the date of incorporation on July 5, 2017 to December 31, 2017 were $45.1 million, primarily from installment payments of $140.1 million on the East Coast of Canada newbuilding shuttle tankers and two Suezmax DP2 shuttle tanker newbuildings, partially offset by cash acquired of $89.1 million when the Company acquired the Subsidiaries.

Financing

As at December 31, 2018, the Company had one revolving credit facility, which provided for borrowings of up to $475.0 million (December 31, 2017 - $575.0 million) and was fully drawn (December 31, 2017 - fully drawn). The amounts available under the revolving credit facility reduce by $100 million (2019), $100 million (2020), $100 million (2021) and $175 million (2022). The revolving credit facility is collateralized by first-priority mortgages granted on 16 of the Group's shuttle tankers, together with other related security.

The Company had $250 million in senior unsecured bonds outstanding as at December 31, 2018 and 2017 that mature in August 2022. The interest payments on these bonds are fixed at a rate of 7.125%.

As at December 31, 2018, the Company had one term loan (December 31, 2017 - none) outstanding for $20.2 million (December 31, 2017 - nil) and one of the Company's 100% owned subsidiaries had two term loans (December 31, 2017 - one) outstanding for $283.5 million (December 31, 2017 - $191.9 million). The term loans reduce over time with semi-annual payments, having varying maturities through 2030 and are collateralized with first-priority mortgages on three shuttle tankers and four shuttle tanker newbuildings. In April 2019, the Company secured a debt facility providing total borrowings of $413.8 million related to the first four shuttle tanker newbuilding vessels and expects to secure additional financing for the remaining two vessels. The Company expects to draw on this facility in late-April 2019.

In 2013, one of the Company's 100% owned subsidiaries issued a total of $174.2 million ten-year senior bonds that mature in January 2024. The bonds accrue interest at a fixed rate of 4.96%. The Company's subsidiary makes semi-annual repayments on the bonds and as at December 31, 2018, the carrying amount of the bonds was $123.9 million (December 31, 2017 - $140.7 million).

As at December 31, 2018, two of the Company's 50%-owned subsidiaries (December 31, 2017 - three) had one term loan (December 31, 2017 - two) which in aggregate totaled $55.0 million (December 31, 2017 - $85.6 million). The term loan reduces over time with quarterly payments and matures in 2021.

Dividends

The Group paid cash distributions of $34.0 million during 2018. The Group's Board of Directors intends to periodically reassess its expectations as to dividends. The timing and amount of any future dividends would depend on, among other things, the earnings for the Group's fleet, financial and borrowing conditions, capital expenditures, market prospects and investment opportunities, as well as limitations under Marshall Islands law.

The Company

Net loss for the year ended December 31, 2018 and from the date of incorporation on July 5, 2017 to December 31, 2017 for the Company was $42.6 million and $7.2 million, respectively. Total assets as at December 31, 2018 and 2017 were $1,233.2 million and $1,304.9 million, respectively. Total member's equity as at December 31, 2018 and 2017 were $415.0 million and $477.1 million, respectively. During the year ended December 31, 2018 and from the date of incorporation on July 5, 2017 to December 31, 2017, the Company generated cash flows of $(8.0) million and $16.4 million, respectively, on a parent company basis.

Health, Safety and Environment

Safety and environmental compliance are the Group's top operational priorities. The shuttle tankers are operated by direct and indirect subsidiaries of Teekay Offshore (collectively, the *Fleet Manager*) in a manner intended to protect the safety and health of employees, the general public and the environment. The Group and Fleet Manager actively manage the risks inherent in the Group's business and are committed to eliminating incidents that would threaten safety and integrity of the vessels, such as groundings, fires, collisions and petroleum spills. The Group is also committed to reducing emissions and waste generation.

The Fleet Manager is responsible for providing technical management services for all of the Group's vessels. The Fleet Manager provides expertise in various functions critical to the Group's operations, resulting in a safe, efficient and cost-effective operation. The Fleet Manager uses in the Group's operations to perform a thorough risk management program that includes, among other things, computer aided risk analysis tools, maintenance and assessment programs, a seafarer competence training program, seafarer workshops and member in emergency response organizations.

The Group expects to benefit from Teekay Offshore's commitment to safety and environmental protection. Teekay Offshore complies with the standards reflected in the International Management Code for the Safe Operation of Ships and for Pollution Prevention (or *ISM Code*), the International Standards Organization's (or *ISO*) 9001 for Quality Assurance, ISO 14001 for Environmental Management Systems and Occupation Health and Safety Assessment Series 18001.

The passage of climate change control legislation or other regulatory initiatives that restrict emissions of greenhouse gases could have a significant financial and operational impact on the Group's business, which cannot be predicted with certainty at this time. Such regulatory measures could increase the Group's costs related to operating and maintaining the Group's vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. In addition, increased regulation of greenhouse gases may, in the long term, lead to reduced demand for oil and reduce demand for the Group's services.

Strategy and Outlook

The Group is expected to continue to generate strong cash flow during 2019. Teekay Shuttle Tankers' business strategy is primarily focused on implementing existing growth projects and extending assets on long-term charters and pursuing additional strategic growth projects. The Company may enter into joint ventures and partnerships with companies that may provide increased access to charter opportunities. The Group seeks to leverage the expertise, relationships and reputation of Brookfield and Teekay Offshore to pursue growth opportunities in the offshore sector.

Governance of Teekay Shuttle Tankers L.L.C.

Administrative, management and supervisory bodies

Teekay Shuttle Tankers has a single director, Edith Robinson, who is also its President and Secretary. Ms. Robinson was appointed as a director and officer of the Company in July 2017. Ms. Robinson was appointed as Secretary of Teekay Offshore GP L.L.C. (the *General Partner)* in 2014 and as Secretary of Teekay Offshore Group Ltd. in 2015. Ms. Robinson joined Teekay Corporation in 2014 and currently serves as an Associate General Counsel. She is also Secretary of Teekay GP L.L.C. and Teekay Tankers Ltd. Prior to joining Teekay Corporation, Ms. Robinson served as the General Counsel for a utility group in Bermuda. She has over 20 years of legal experience and is qualified to practice law in Bermuda, Ontario Canada, and England. Ms. Robinson has an MBA from Cornell University in addition to her legal qualifications.

The General Partner manages Teekay Offshore, which indirectly owns the Company. Accordingly, the General Partner controls appointments to the board of the Company. The General Partner does not have any officers other than its secretary. Pursuant to services agreements, employees of certain subsidiaries of Teekay Offshore and Teekay Corporation provide various services to the Group, including substantially all of their managerial, operational and administrative services and other technical and advisory services.

Directors of Teekay Offshore's General Partner

The following summaries present certain information regarding the directors of the General Partner, whose business address is 4th floor, Belvedere Building, 69 Pits Bay Road, Hamilton, HM 08, Bermuda.

Ian Craig was appointed a director of the General Partner in June 2017. Mr. Craig has served in various executive positions in Shell, most recently in Nigeria where he was an Executive Vice President for Sub Saharan Africa and in Russia where he was Chief Executive Officer of Sakhalin Energy, an incorporated joint venture of Gazprom, Shell, Mitsui and Mitsubishi. Prior to that, Mr. Craig was a Board member and Technical Director of Enterprise Oil plc until its acquisition by Shell in 2002. He had earlier held executive management positions with other oil exploration and production companies including Sun Oil and BP. Since retiring in 2013, Mr. Craig has also previously served as a non-executive director of Petroceltic plc and as a Special Advisor to OMV's supervisory board.

Kenneth Hvid was appointed President and Chief Executive Officer of Teekay Corporation in February 2017 and has served as a director of the General Partner since 2011, a director of Teekay Tankers Ltd since February 2017, and a director of Teekay Gas GP L.L.C. since September 2018. Mr. Hvid joined Teekay Corporation in 2000 and was responsible for leading its global procurement activities until he was promoted in 2004 to Senior Vice President, Teekay Gas Services. During that time, Mr. Hvid was involved in leading Teekay Corporation through its entry and growth in the liquefied natural gas business. He held that position until the beginning of 2006, when he was appointed President of the Teekay Navion Shuttle Tankers and Offshore division. In that role, he was responsible for Teekay Corporation's global shuttle tanker business as well as initiatives in the floating, storage and offtake business and related offshore activities. Mr. Hvid served as Teekay Corporation's Chief Strategy Officer and Executive Vice President from 2011 to 2015, as a director of Teekay GP L.L.C. from 2011 to 2015 and as President and Chief Executive Officer of Teekay Offshore Group Ltd., from 2015 to 2016. Mr. Hvid has 29 years of global shipping experience, 12 of which were spent with A.P. Moller in Copenhagen, San Francisco and Hong Kong. In 2007, Mr. Hvid joined the board of Gard P. & I. (Bermuda) Ltd.

Craig Laurie was appointed a director of the General Partner in September 2018. Mr. Laurie is a Managing Partner in Brookfield's Private Equity Group overseeing Capital Markets, Finance and Planning. Mr. Laurie joined Brookfield in 1997 and has held a number of senior finance positions across the organization, including Chief Financial Officer of Brookfield Business Partners. Prior to joining Brookfield, Mr. Laurie worked in restructuring and advisory services at Deloitte. Mr. Laurie is a Chartered Professional Accountant and holds a Bachelor of Commerce from Queen's University.

David L. Lemmon has served as a director of the General Partner since 2006. Mr. Lemmon served on the board of directors of Kirby Corporation, a position he held from 2006 until 2014. Mr. Lemmon also served on the board of directors of Deltic Timber Corporation from 2007 until 2017. Mr. Lemmon was the President and Chief Executive Office of Colonial Pipeline Company from 1997 until his retirement in 2006. Prior to joining Colonial Pipeline Company, he served as President of Amoco Pipeline Company for seven years, as part of a career with Amoco Corporation that spanned 32 years. Mr. Lemmon has served as a member of the board of directors of the American Petroleum Institute, the National Council of Economic Education and the Battelle Energy Advisory Committee. He has served as a member of the Northwestern University Business Advisory Committee and as a guest faculty member at Northwestern University's Kellogg Graduate School of Management.

John J. Peacock served as a director of the General Partner from 2006 until March 2019 when he retired from his position and was replaced by William L. Transier. Mr. Peacock retired in 2007 from Fednav Limited, a Canadian ocean-going, dry-bulk shipowning and chartering group. Joining as Fednav's Treasurer in 1979, he became Vice-President Finance in 1984 and joined the board of directors. In 1998, Mr. Peacock was appointed Executive Vice-President of Fednav and President and Chief Operating Officer of Fednav International Ltd., the Group's principal operating subsidiary. Though retired, he continues to serve as a Director. Mr. Peacock has over 40 years accounting experience, and prior to joining Fednav was a partner with Clarkson Gordon (now Ernst & Young) in Montreal, Canada.

William L. Transier was appointed a director of the General Partner in March 2019. Mr. Transier is the Chief Executive Officer of Transier Advisors, LLC, an independent advisory firm. He has served as a director of Westinghouse Electric Company since 2017, an independent director of Helix Energy Solutions Group since 2000 and as its chairman since 2017, and as a member of the board of directors of Sears Holding Corporation since 2018. Mr. Transier previously served on the boards of directors of Gastar Exploration Inc. from 2018 to February 2019, CHC Group Ltd. from 2016 to 2017, Paragon Offshore Plc. from 2014 to 2017 and Cal Dive International, Inc., from 2006 to 2012. In 2004, Mr. Transier co-founded and was the Chairman and CEO of, Endeavour International Corporation, an international oil and gas exploration and production company, until 2015. Before that, he served in various senior roles for Ocean Energy Inc., including Executive Vice President and Chief Financial Officer, Seagull Energy Corporation and KPMG LLC.

Jim Reid was appointed a director of the General Partner in September 2017. Mr. Reid is a Managing Partner and a Chief Investment Officer in Brookfield's Private Equity Group. Mr. Reid is responsible for originating, evaluating and structuring investments and financings in the energy sector and overseeing operations in Brookfield's energy segment. He established Brookfield's Calgary office in 2003 after spending several years as a Chief Financial Officer for two oil and gas exploration and production companies in Western Canada. Mr. Reid obtained his Chartered Professional Accountant designation at PriceWaterhouseCoopers in Toronto and holds a Bachelor of Arts in Commerce from the University of Toronto.

Dennis Turcotte was appointed a director of the General Partner in September 2018. Mr. Turcotte is a Managing Partner in Brookfield's Private Equity Group, responsible for business operations. Mr. Turcotte joined Brookfield's Private Equity Group in 2017, prior to which he served as a member of the Brookfield Private Equity Advisory Board for 10 years and as a member of the Brookfield Business Partners' Board of Directors from 2016 until 2017. Prior to joining Brookfield, Mr. Turcotte held several roles, including Principal with North Channel Management and Capital Partners, Chief Executive Officer of Algoma Steel, President of the Paper Group and Executive Vice President, Corporate Development and Planning with Tembec. Mr. Turcotte holds a Bachelor of Engineering from Lakehead University and an MBA from the University of Western Ontario.

Walter Weathers was appointed a director of the General Partner in September 2017. Mr. Weathers is a Senior Vice President for Brookfield Asset Management, focused on private equity investments in the oil and gas sector. Prior to his current position, Mr. Weathers served in various roles within Cameron International Corporation (a company owned by Schlumberger), including Vice President of Finance, Vice President of Rig Equipment Houston, Vice President of Marketing & Strategy, and Director of Mergers & Acquisitions. Before joining Cameron, Mr. Weathers served as Vice President Finance for NATCO Group and was a principal of The Catalyst Group. Mr. Weathers holds an MBA from the University of Texas McCombs School of Business and a Bachelor of Science from the United States Naval Academy, and he is a veteran of the United States Marine Corps.

Bill Utt was appointed Chairman and a director of the General Partner in June 2017. He has served as a director of Teekay Corporation since 2015 and was appointed Chairman in June 2017. In September 2018, Mr. Utt was appointed to the Board of Teekay GP L.L.P.. Mr. Utt brings over 33 years of engineering and energy industry experience to his board position. From 2006 until his retirement in 2014, he served as Chairman, President and Chief Executive Officer of KBR Inc., a global engineering, construction and services company. From 1995 to 2006, Mr. Utt served as the President and Chief Executive Officer of SUEZ Energy North America and President and Chief Executive Officer of Tractebel's North American energy businesses. Prior to 1995 he held senior management positions with CRSS, Inc., which was a developer and operator of independent power and industrial energy facilities prior to its merger with

Tractebel in 1995. Mr. Utt also currently serves as a member of the Board of Directors for Brand Industrial Holdings Inc, a Clayton, Dubilier & Rice, LLC portfolio.

Administrative, management and supervisory bodies conflicts of interest

The General Partner indirectly oversees the Company's operations and activities. As of the date of this Annual Report, the General Partner is owned 51% by Brookfield and 49% by Teekay Corporation.

Pursuant to services agreements, subsidiaries of Teekay Offshore provide various services to the Group, including ship management, commercial, technical, strategic, business development and administrative services.

The directors of the General Partner indirectly oversee the Company's affairs. The Company has a single director, Edith Robinson, who is also the corporate secretary of the General Partner. Ms. Robinson is also an employee of Teekay Corporation.

The General Partner owes a fiduciary duty to the unitholders of Teekay Offshore. Neither the General Partner nor Teekay Offshore is liable for existing debts or obligations of the Group, including under the Bonds, and intends to cause the Group only to incur future indebtedness and obligations that are non-recourse to the General Partner and Teekay Offshore.

The officer of the General Partner and those officers and employees of subsidiaries of Teekay Offshore providing services to the Group may face a conflict regarding the allocation of their time between the business of the Group and the other business interests of Teekay Offshore or its other affiliates, including Teekay Corporation.

Because the officer and certain directors of the General Partner are also directors and/or officers of Teekay Corporation, Brookfield or other affiliates thereof, such officer and directors have fiduciary duties to Teekay Corporation, Brookfield or such other affiliates that may cause them to pursue business strategies that disproportionately benefit Teekay Corporation, Brookfield or such other affiliates or which otherwise are not in the best interests of the Group. Other than as stated above there are, to the Company's knowledge, no potential conflicts of interest between any duties owed by the persons referred to above to the Company and their private interests or other duties of such persons.

Risk management and internal control

Our management, through the Fleet Manager, is responsible for establishing and maintaining for the Group adequate internal control over financial reporting. The internal controls were designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States, and the non-consolidated financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the Accounting Standards Board. Our internal controls over financial reporting include those policies and procedures that: 1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of management and our directors; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Appointment and replacement of members of the Board of Directors

Under the Company's limited liability agreement, its members have full authority unilaterally to appoint, by majority vote, such individuals to be directors as they shall chose in their sole discretion, and to remove and replace, by majority vote, any Director they appoint to the Board of Directors, with or with-out cause, at any time and for any reason, and to fill by majority vote, any positions created on the Board of Directors as a result of an increase in the size of the Board of Directors; provided, however, that (i) each Director shall be a natural person and (ii) at all times a majority of the Directors shall be persons who are not residents of Canada for the purposes of the Income Tax Act (the 'Canadian Tax Act') Canadian Tax Act except in the case of the death, resignation or dismissal of one of more Directors who are not residents of Canada for purposes of the Canadian Tax Act, provided that within 21 days of such death, resignation or dismissal with (1) the Members shall appoint one or more new non-resident Director to replace each non-resident Director who died, resigned or was dismissed or (2) one more Directors who are residents of Canada for purposes of the Canadian Tax Act shall resign to achieve the required non-resident majority. No person who is a resident of the United States may be a Director of the Company. Each Director shall be appointed to serve until his or her successor shall be appointed and shall qualify until his or her earlier resignation of removal.

Equity

There are no provisions in the Company's articles of association or any authorizations permitting an executive board to decide that the enterprise shall repurchase or issue own shares or primary capital certificates.

Hamilton, April 9, 2019

/s/ Edith Robinson

Edith Robinson
Sole Director

Director’s Responsibility Statement

I confirm, to the best of my knowledge, that the financial statements contained in the Annual Report, which consist of the Company’s consolidated financial statements for the year ended December 31, 2018 and the period from July 5, 2017 to December 31, 2017 have been prepared in accordance with the United States generally accepted accounting principles, and the financial statements of the Company, as parent company, for the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017, have been prepared in accordance with the International Financial Reporting Standards, and the information presented in the consolidated financial statements and financial statements for the Company as parent company gives a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and Company.

I also confirm to the best of my knowledge that the Board of Director’s Report includes a true and fair review of the development and performance of the Group and Company, together with a description of the principal risks and uncertainties facing the Group and Company.

Hamilton, April 9, 2019

/s/ Edith Robinson

Edith Robinson
Sole Director

CONSOLIDATED FINANCIAL STATEMENTS

TEEKAY SHUTTLE TANKERS L.L.C.

For the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017

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Independent Auditors' Report

The Board of Directors
Teekay Shuttle Tankers L.L.C.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Teekay Shuttle Tankers L.L.C. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of income (loss), comprehensive income (loss), changes in total equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Teekay Shuttle Tankers L.L.C. and its subsidiaries as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter – Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the entity has changed its accounting policies for revenue recognition as of January 1, 2018 due to the adoption of ASU 2014-09 – Revenue from Contracts with Customers, and the classification of restricted cash on the statement of cash flows for 2018 and comparative periods due to the adoption of ASU 2016-18 – Statement of Cash Flows: Restricted Cash. Our opinion is not modified with respect to this matter.

KPMG LLP

Vancouver, Canada
April 9th, 2019

TEEKAY SHUTTLE TANKERS L.L.C.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in thousands of U.S. dollars)

	Year Ended December 31, 2018	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$	$
Revenues *(notes 2, 5 and 11)*	632,814	130,755
Voyage expenses *(note 2)*	(109,351)	(21,822)
Vessel operating expenses *(notes 2 and 11)*	(144,249)	(41,119)
Time-charter hire expenses *(note 11)*	(89,999)	(14,079)
Depreciation and amortization *(notes 1 and 2)*	(154,734)	(32,781)
General and administrative *(note 11)*	(16,384)	(5,045)
(Write-down) and gain (loss) on sale of vessels *(note 14)*	(24,010)	(244)
Restructuring charge *(note 10)*	—	(211)
Income from vessel operations	94,087	15,454
Interest expense *(notes 8 and 12)*	(74,222)	(19,064)
Interest income	1,457	710
Realized and unrealized loss on derivative instruments *(note 12)*	(3,283)	(903)
Foreign currency exchange gain (loss)	272	(2,016)
Other expense - net	(75)	(1,035)
Income (loss) before income tax expense	18,236	(6,854)
Income tax (expense) recovery *(note 13)*	(14,914)	1,904
Net income (loss)	3,322	(4,950)
Non-controlling interests in net income (loss)	(7,588)	542
Net income (loss) attributable to member of Teekay Shuttle Tankers L.L.C.	10,910	(5,492)

Related party transactions *(note 11)*

The accompanying notes are an integral part of the consolidated financial statements.

TEEKAY SHUTTLE TANKERS L.L.C.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands of U.S. dollars)

	Year Ended December 31, 2018	Period from the date of incorporation July 5, 2017 to December 31, 2017
	$	$
Net income (loss)	3,322	(4,950)
Other comprehensive income:		
Other comprehensive income before reclassifications		
Unrealized gain on qualifying cash flow hedging instruments *(note 12)*	2,495	441
Accounts reclassified from accumulated other comprehensive income		
To interest expense:		
Realized (gain) on qualifying cash flow hedging instruments *(note 12)*	(154)	—
Other comprehensive income	2,341	441
Comprehensive income (loss)	5,663	(4,509)
Non-controlling interests in comprehensive income (loss)	(7,588)	542
Member's interest in comprehensive income (loss)	13,251	(5,051)

The accompanying notes are an integral part of the consolidated financial statements.

TEEKAY SHUTTLE TANKERS L.L.C.
CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at December 31, 2018 $	As at December 31, 2017 $
ASSETS		
Current		
Cash and cash equivalents *(notes 4a and 15)*	98,000	96,314
Restricted cash *(notes 4a and 15)*	1,200	—
Accounts receivable, including non-trade of $697 (December 31, 2017 - $20,782) *(note 2)*	28,412	43,436
Vessel held for sale *(note 14)*	8,000	—
Current portion of derivative assets *(note 12)*	608	104
Net investment in direct financing lease - current (*note 4b)*	858	813
Prepaid expenses	14,821	18,011
Due from affiliates *(note 11)*	137,379	159,272
Other current assets *(note 2 and 5)*	5,143	—
Total current assets	294,421	317,950
Vessels and equipment		
At cost, less accumulated depreciation of $716,721 (December 31, 2017 - $716,254)	1,360,313	1,439,839
Advances on newbuilding contracts *(note 16)*	73,713	62,960
Net investment in direct finance lease *(note 4b)*	3,935	5,008
Derivative assets *(note 12)*	935	705
Deferred tax asset *(note 13)*	—	13,920
Due from affiliates *(note 11)*	—	37,098
Other non-current assets *(note 2 and 5)*	30,238	14,142
Goodwill *(note 6)*	127,113	127,113
Total assets	1,890,668	2,018,735
LIABILITIES AND EQUITY		
Current		
Accounts payable	5,037	29,681
Accrued liabilities *(notes 7 and 12)*	31,906	55,621
Deferred revenues *(note 5)*	10,741	14,727
Due to affiliates *(note 11)*	124,721	49,029
Current portion of derivative liabilities *(note 12)*	2,036	883
Current portion of long-term debt *(note 8)*	142,456	159,012
Total current liabilities	316,897	308,953
Long-term debt *(note 8)*	1,045,200	1,064,809
Derivative liabilities *(note 12)*	270	67
Due to affiliates *(note 11)*	—	109,669
Other long-term liabilities *(note 5)*	19,738	2,353
Total liabilities	1,382,105	1,485,851
Commitments and contingencies *(note 16)*		
Equity		
Paid-in capital	484,880	483,879
Accumulated deficit	(16,317)	(5,492)
Accumulated other comprehensive income	2,782	441
Member's equity	471,345	478,828
Non-controlling interest	37,218	54,056
Total equity	508,563	532,884
Total liabilities and total equity	1,890,668	2,018,735

Subsequent events (*note 17)*
The accompanying notes are an integral part of the consolidated financial statements.

Hamilton, Bermuda
April 9, 2019

/s/ Edith Robinson

Edith Robinson
Sole Director

TEEKAY SHUTTLE TANKERS L.L.C.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

	Year Ended December 31, 2018	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$	$
Cash, cash equivalents and restricted cash provided by (used for)		
OPERATING ACTIVITIES		
Net income (loss)	3,322	(4,950)
Non-cash items:		
Unrealized loss on derivative instruments *(note 12)*	3,117	767
Depreciation and amortization	154,734	32,781
Write-down of vessels and (gain) loss on sale of vessels *(note 14)*	24,010	244
Deferred income tax expense *(note 13)*	13,920	(1,998)
Other	2,069	1,410
Change in non-cash working capital items related to operating activities	23,571	(123,154)
Expenditures for dry docking	(19,977)	(2,714)
Net operating cash flow	204,766	(97,614)
FINANCING ACTIVITIES		
Proceeds from long-term debt *(note 8)*	124,062	893,862
Scheduled repayments of long-term debt *(note 8)*	(144,291)	(77,107)
Debt issuance costs *(note 8)*	(7,775)	(11,032)
Prepayments of long-term debt *(note 8)*	(15,330)	(369,722)
Cash distributions paid by the Company	(34,000)	—
Cash distributions paid by subsidiaries to non-controlling interests	(10,750)	(5,486)
Cash contribution paid from non-controlling interest to subsidiaries	1,500	—
Return of capital to member	—	(191,500)
Net financing cash flow	(86,584)	239,015
INVESTING ACTIVITIES		
Net payments for vessels and equipment, including advances on newbuilding contracts	(146,270)	(140,115)
Proceeds from sale of vessels and equipment *(note 14)*	29,946	5,700
Direct financing lease payments received	1,028	272
Acquisition of subsidiaries, net of cash acquired of $89.1 million	—	89,056
Net investing cash flow	(115,296)	(45,087)
Increase in cash, cash equivalents and restricted cash	2,886	96,314
Cash, cash equivalents and restricted cash, beginning of the year / period	96,314	—
Cash, cash equivalents and restricted cash, end of the year / period	99,200	96,314

Supplemental cash flow information *(note 15)*

The accompanying notes are an integral part of the consolidated financial statements.

TEEKAY SHUTTLE TANKERS L.L.C.

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

	Paid-in Capital $	Accumulated deficit $	Accumulated Other Comprehensive Income $	Non-Controlling Interest $	Total $
Balance as at July 5, 2017	—	—	—	—	—
Contributions from Teekay Offshore Holdings L.L.C.	765,933	—	—	59,000	824,933
Return of capital *(notes 1 and 10)*	(282,054)	—	—	—	(282,054)
Net loss	—	(5,492)	—	542	(4,950)
Distributions to non-controlling interests	—	—	—	(5,486)	(5,486)
Other comprehensive income *(note 12)*	—	—	441	—	441
Balance as at December 31, 2017	483,879	(5,492)	441	54,056	532,884
Net income	—	10,910	—	(7,588)	3,322
Cash distributions	—	(34,000)	—	—	(34,000)
Other comprehensive income *(note 12)*	—	—	2,341	—	2,341
Contribution of capital from Teekay Offshore	—	(530)	—	—	(530)
Distributions to non-controlling interests	—	—	—	(10,750)	(10,750)
Contribution from non-controlling interest	—	—	—	1,500	1,500
Change in accounting policy *(note 2)*	—	12,795	—	—	12,795
Equity contribution *(note 11d)*	1,001	—	—	—	1,001
Balance as at December 31, 2018	484,880	(16,317)	2,782	37,218	508,563

The accompanying notes are an integral part of the consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of presentation

During July 2017, Teekay Offshore Holdings L.L.C. (*Teekay Offshore*), a 100% owned subsidiary of Teekay Offshore Partners L.P. formed Teekay Shuttle Tankers L.L.C., which is a company organized under the laws of the Republic of the Marshall Islands (the *Company*). On October 3, 2017, Teekay Offshore sold five wholly-owned subsidiaries and one 50% owned subsidiary (the *Subsidiaries*), which in aggregate controlled 35 shuttle tankers, including five shuttle tanker newbuildings and three chartered-in shuttle tankers, to the Company for a total consideration of $765.9 million, net of debt and working capital. The Subsidiaries consisted of Teekay Offshore Operating L.P., Teekay Shuttle Tanker Finance L.L.C., Lambada Spirit L.L.C., Samba Spirit L.L.C., Navion Bergen L.L.C. and a 50% interest in Navion Gothenburg L.L.C. Teekay Offshore Operating L.P. owned 23 100% owned subsidiaries and five 50% owned subsidiaries. Teekay Shuttle Tanker Finance L.L.C. owned two 100% owned subsidiaries.

The Company accounted for the acquisition of the Subsidiaries from Teekay Offshore as a related party transaction and as a transfer of net assets between entities under common control. The method of accounting for such transfers is similar to the pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. Accordingly, assets and liabilities of the Subsidiaries acquired were originally recorded at the Subsidiaries' carrying value at the date of acquisition and the excess of Teekay Offshore's historical costs over the proceeds paid was accounted for as an equity contribution by Teekay Offshore.

As of December 31, 2018, the Company controlled 33 shuttle tankers, of which four are owned through 50%-owned subsidiaries, two are chartered-in and the remaining vessels are owned 100% by the Company. The Company's shuttle tanker fleet consisted of 26 vessels that operate under fixed-rate contracts of affreightment (*CoA)*, time charters and bareboat charters, one vessel that is currently in lay-up and six shuttle tanker newbuilding vessels which are expected to deliver in late-2019 through early-2021.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. Significant intercompany balances and transactions have been eliminated upon consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign currency

The consolidated financial statements are stated in U.S. Dollars and the functional currency of the Company is the U.S. Dollar. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year-end exchange rates. Resulting gains or losses are reflected separately in the consolidated statements of income (loss).

Revenues

Each vessel charter may, depending on its terms, contain a lease component, a non-lease component or both. Revenues that are fixed on or prior to the commencement of the contract are recognized by the Company on a straight-line basis daily over the term of the contract. The Company does not recognize revenue during days that the vessel is off hire unless the contract provides for compensation while off hire. Where the term of the contract is based on the duration of a single voyage, the Company uses a discharge-to-discharge basis in determining proportionate performance for all tanker spot voyages that contain a lease and a load-to-discharge basis in determining proportionate performance for all tanker spot voyages that do not contain a lease. Consequently, the Company does not begin recognizing revenue until a voyage charter has been agreed to by the customer and the Company, even if the vessel has discharged its prior cargo and is sailing to the anticipated load location for its next voyage. Reimbursements of vessel operating expenditures incurred to provide the contracted services to the charterer are recognized when the expenses entitling the Company to reimbursement are incurred. Revenue or penalties from performance-based metrics, such as production tariffs and other operational performance measures are recognized as earned or incurred unless such performance-based revenue is based on a multi-period performance-based metric that is allocable to non-lease services provided. In such a case, the Company will estimate the amount of variable consideration, to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved and recognized such estimate of revenue over the performance period.

The consolidated balance sheets reflect in other current assets the accrued portion of revenues for those voyages that commence prior to balance sheet date and complete after the balance sheet date and reflect in deferred revenues or other long-term liabilities the deferred portion of revenues which will be earned in subsequent periods.

Operating expenses

Voyage expenses are all expenses unique to a particular voyage, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Vessel operating expenses include crewing, ship management services, repairs and maintenance, insurance, stores, lube oils and communication expenses.

Voyage expenses and vessel operating expenses are recognized when incurred, except when the Partnership incurs pre-operational costs related to the repositioning of a vessel or offshore unit that relates directly to a specific customer contract, that generates or enhances resources of the Partnership that will be used in satisfying performance obligations in the future, and where such costs are expected to be recovered via the customer contact. In this case, such costs are deferred and amortized over the duration of the customer contract.

The Company recognizes the expense from vessels time-charted from other owners, which is included in time-charter hire expenses in the accompanying consolidated statements of income (loss), on a straight-line basis over the firm period of the charters.

Cash and cash equivalents

The Company classifies all highly liquid investments with a maturity date of three months or less when purchased as cash and cash equivalents.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience and customer economic data. The Company reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged against the allowance when the Company believes that the receivable will not be recovered. There is no allowance for doubtful accounts recorded as at December 31, 2018 and 2017.

Vessels and equipment

All pre-delivery costs incurred during the construction of newbuildings and conversions, including interest, supervision and technical costs, are capitalized. The acquisition cost and all costs incurred to restore used vessels purchased by the Company to the standards required to properly service the Company's customers are capitalized.

Vessel capital modifications include the addition of new equipment or can encompass various modifications to the vessel which are aimed at improving and/or increasing the operational efficiency and functionality of the asset. This type of expenditure is amortized over the estimated useful life of the modification. Expenditures covering recurring routine repairs or maintenance are expensed as incurred.

The Company's shuttle tankers are comprised of two components: i) a conventional tanker (or the *tanker component*) and ii) specialized shuttle equipment (or the *shuttle component*). The Company differentiates these two components on the principle that a shuttle tanker can also operate as a conventional tanker without the use of the shuttle component. The economics of this alternate use depend on the supply and demand fundamentals in the two segments. Historically, the Company assessed the useful life of the tanker component as being 25 years and the shuttle component as being 20 years. During the year ended December 31, 2018, the Company considered challenges associated with shuttle tankers approaching 20 years of age in recent years and has reassessed the useful life of the tanker component to 20 years. This change in estimate, which commenced as of January 1, 2018, affected 21 vessels in the Company's shuttle tanker fleet. The effect of this change in estimate was an increase in depreciation and amortization expense and a decrease in net income of $15.7 million for the year ended December 31, 2018.

Depreciation is calculated on a straight-line basis over a vessel's estimated useful life to an estimated residual value. Shuttle tankers are depreciated using an estimated useful life of 20 years commencing the date the vessel is delivered from the shipyard, or for a shorter period if regulations prevent the Company from operating the vessel for the estimated useful life. Depreciation of vessels and equipment for the year ended December 31, 2018 totaled $134.1 million and for the period from the date of transfer of the Subsidiaries on October 3, 2017 to December 31, 2017 totaled $28.0 million. The Company had no depreciation charge during the period from the date of incorporation on July 5, 2017 to October 2, 2017. Depreciation and amortization includes depreciation on all owned vessels.

Interest costs capitalized to vessels and equipment for the year ended December 31, 2018 totaled $3.2 million and for the period from the date of transfer of the Subsidiaries on October 3, 2017 to December 31, 2017, totaled $0.3 million.

Generally, the Company dry docks each shuttle tanker every two and a half to five years. The Company capitalizes a portion of the costs incurred during dry docking and amortizes those costs on a straight-line basis from the completion of a dry docking over the estimated useful life of the dry dock. Included in capitalized dry docking are costs incurred as part of the dry docking to meet regulatory requirements, or expenditures that either add economic life to the vessel, increase the vessel's earning capacity or improve the vessel's operating efficiency. The Company expenses costs related to routine repairs and maintenance performed during dry docking that do not improve operating efficiency or extend the useful lives of the assets.

Capitalized costs relating to dry-docking activity for the year ended December 31, 2018 and for the period from the date of transfer of the Subsidiaries on October 3, 2017 through December 31, 2017 is summarized as follows:

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

	Year Ended December 31, 2018	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$	$
Balance at beginning of the year / period	34,075	36,269
Cost incurred for dry docking	22,128	2,609
Dry-docking amortization	(20,625)	(4,803)
Balance at end of the year / period	35,578	34,075

Vessels and equipment that are "held and used" are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the net undiscounted cash flows expected to be generated over its remaining useful life, the carrying amount of the asset is reduced to its estimated fair value. The estimated fair value for the Company's impaired vessels is determined using discounted cash flows or appraised values. In cases where an active second-hand sale and purchase market exists, an appraisal value is used to estimate the fair value of an impaired vessel. An appraised value is generally the amount the Company would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Company. When an asset impairment occurs, the Company adjusts the carrying value of the asset to its new cost base and writes off the asset's accumulated depreciation.

Direct financing leases

Equipment that reduces volatile organic compound emissions (or *VOC equipment*) is accounted for as a direct financing lease, with lease payments received by the Company being allocated between the net investment in the lease and revenue using the effective interest method so as to produce a constant periodic rate of return over the lease term.

Debt issuance costs

Debt issuance costs related to a recognized debt liability, including bank fees, commissions and legal expenses, are capitalized and amortized over the term of the relevant loan facility to interest expense using an effective interest rate method. Debt issuance costs are presented as a reduction from the carrying amount of that debt liability, unless no amounts have been drawn under the debt or the debt issuance costs exceed the carrying value of the related debt liability, in which case the debt issuance costs are presented as other non-current assets.

Fees paid to amend a non-revolving credit facility are associated with the extinguishment of the old debt instrument and included in determining the debt extinguishment gain or loss to be recognized. Any unamortized debt issuance costs would be written off. If a debt amendment is considered not to be a substantial amendment, then the fees would be associated with the replacement or modified debt instrument and, along with any existing unamortized debt issuance costs and premium or discount, would be amortized as an adjustment of interest expense over the remaining term of the replacement or modified debt instrument using the effective interest method. Other related costs incurred with third parties directly related to the modification, other than the loan amendment fee, are expensed as incurred.

Fees paid to amend revolving credit facilities are deferred and amortized over the term of the modified credit facility. If the borrowing capacity is increased as a result of the amendment, unamortized loan costs of the original facility would be deferred and amortized over the term of the modified credit facility. If the borrowing capacity is decreased as a result of the amendment, a proportionate amount, based on the reduction in borrowing capacity, of the unamortized debt issuance costs of the original facility would be written off and the remaining amount would be deferred and amortized over the term of the modified credit facility.

Goodwill

Goodwill is not amortized, but reviewed for impairment at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. When goodwill is reviewed for impairment, the Company will measure the amount by which a reporting unit's carrying value exceeds its fair value, with the maximum impairment not to exceed the carrying value of goodwill.

Derivative instruments

All derivative instruments are initially recorded at fair value as either assets or liabilities in the accompanying consolidated balance sheets and subsequently remeasured to fair value, regardless of the purpose or intent for holding the derivative. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and also qualifies and is designated for hedge accounting. During the year ended December 31, 2018 and for the period from the date of transfer of the Subsidiaries on October 3, 2017 to December 31, 2017, the Company's interest rate swap was designated in a qualifying hedging relationship and hedge accounting was applied in the consolidated financial statements.

When a derivative is designated as a cash flow hedge, the Company formally documents the relationship between the derivative and the hedged item. This documentation includes the strategy and risk management objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge. Any hedge ineffectiveness is recognized immediately in earnings, as are any gains and losses on the derivative that are excluded from the assessment of hedge effectiveness. The Company does not apply hedge accounting if it is determined that the hedge was not effective or will no longer be effective, the derivative was sold or exercised, or the hedged item was sold, repaid or is no longer possible of occurring. As at December 31, 2018, the Company has de-designated all hedging relationships and does not apply hedge accounting to any of its derivative instruments.

For derivative financial instruments designated in qualifying cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are initially recorded as a component of accumulated other comprehensive income in equity. In the periods when the hedged items affect earnings, the associated fair value changes on the hedging derivatives are transferred from equity to the corresponding earnings line item in the consolidated statements of income (loss). The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in the interest expense line of the consolidated statements of income (loss). If a cash flow hedge is de-designated and the originally hedged item is still considered probable of occurring, the gains and losses initially recognized in equity remain there until the hedged item impacts earnings, at which point they are transferred to the corresponding earnings line item in the consolidated statements of income (loss). If the hedged item is no longer probable of occurring, amounts recognized in equity are immediately transferred to the relevant earnings line item in the consolidated statements of income (loss).

For derivative financial instruments that are not designated as accounting hedges, the changes in the fair value of the derivative financial instruments are recognized in earnings. Gains and losses from the Company's non-designated foreign currency forward contracts and interest rate swaps are recorded in realized and unrealized loss on derivative instruments in the consolidated statements of income (loss).

Income taxes

The Company is subject to income taxes relating to its subsidiaries in Norway, Singapore, Canada, Luxembourg and the Netherlands. The Company accounts for such taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the applicable jurisdictional tax rates. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

Recognition of uncertain tax positions is dependent upon whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the consolidated financial statements based on guidance in the interpretation. The Company recognizes interest and penalties related to uncertain tax positions in income tax (expense) recovery in the Company's consolidated statements of income (loss).

2. Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (or *FASB*) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (or *ASU 2014-09*). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 was adopted by the Company January 1, 2018, and has been applied, at the Company's option, as a cumulative-effect adjustment as of the date of adoption. The Company has elected to apply ASC 2014-09 only to those contracts that were not completed as of January 1, 2018. The Company identified the following differences:

- Revenue from time-charter contracts with fixed annual increases in the daily hire rate during the firm period of the charter to compensate for expected inflationary cost increases are recognized on a smoothed basis over the term of the time-charter, instead of recognized when due under the contract. These changes had the impact of increasing revenue by $0.8 million for the year ended December 31, 2018, as well as increasing other non-current assets by $1.9 million and increasing equity by $1.9 million as at December 31, 2018. The cumulative-effect adjustment on January 1, 2018 is an increase to equity of $0.5 million.

- In certain cases, the Company incurs pre-operational costs that relate directly to a specific customer contract, that generate or enhance resources of the Company that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Such costs are deferred and amortized over the duration of the customer contract. The Company previously expensed such costs as incurred unless the costs were directly reimbursable by the contract or if they were related to the mobilization of offshore assets to an oil field. This change had the impact of decreasing (increasing) voyage expenses by $1.8 million, vessel operating expenses by ($0.1) million and depreciation and amortization by $1.1 million for the year ended December 31, 2018, as well as increasing other assets by $15.2 million and equity by $15.2 million as at December 31, 2018. The cumulative increase to opening equity as at January 1, 2018 was $12.4 million.

- Operating costs for the Company's VOC equipment plants on certain shuttle tankers are presented as vessel operating expenses and the reimbursement of such expenses are presented as revenue instead of such amounts being presented on a net basis.

This had the impact of increasing revenues and vessel operating expenses by $8.3 million for the year ended December 31, 2018. There was no cumulative impact to opening equity as at January 1, 2018.

- The Company previously presented all accrued revenue as a component of accounts receivable. The Company has determined that if the right to such consideration is conditional upon something other than the passage of time before payment of that consideration is due, such accrued revenue should be presented apart from accounts receivable. This had the impact of increasing other current assets and decreasing accounts receivable by $4.0 million at December 31, 2018. There was no cumulative impact to opening equity as at January 1, 2018.

In November 2016, the FASB issued Accounting Standards Update 2016-18, *Statement of Cash Flows: Restricted Cash* (or *ASU 2016-18*). ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities are also required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 became effective for the Company January 1, 2018. Adoption of ASU 2016-18 resulted in the Company including in its statement of cash flows changes in cash, cash equivalents and restricted cash.

In October 2017, the FASB issued Accounting Standards Update 2017-04, *Simplifying the Test for Goodwill Impairment*. Pursuant to this update, goodwill impairment will now be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This update eliminates existing guidance that required an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. This update was adopted by the Company on October 1, 2018. There was no impact on transition from the adoption of this update.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (or *ASU 2016-02*). ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For lessees, leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 requires lessors to classify leases as a sales-type, direct financing, or operating lease. A lease is a sales-type lease if any one of five criteria are met, each of which indicate that the lease, in effect, transfers control of the underlying asset to the lessee. If none of those five criteria are met, but two additional criteria are both met, indicating that the lessor has transferred substantially all of the risks and benefits of the underlying asset to the lessee and a third party, the lease is a direct financing lease. All leases that are not sales-type leases or direct financing leases are operating leases. ASU 2016-02 is effective January 1, 2019, with early adoption permitted. FASB issued an additional accounting standards update in July 2018 that made further amendments to accounting for leases, including allowing the use of a transition approach whereby a cumulative effect adjustment is made as of the effective date, with no retrospective effect. The Company has elected to use this new optional transition approach. The Company will adopt ASU 2016-02 on January 1, 2019. To determine the cumulative effect adjustment, the Company will not reassess whether any expired or existing contracts are, or contain leases, will not reassess lease classification, and will not reassess initial direct costs for any existing leases. The adoption of ASU 2016-02 will result in a change in the accounting method for the lease portion of the daily charter hire for the Company's chartered-in vessels accounted for as operating leases with firm periods of greater than one year. As of December 31, 2018, the Company had two in-chartered vessels in its fleet, the accounting for one of which will be impacted by the adoption of ASU 2016-02 as well as a small number of office leases. Under ASU 2016-02, the Company will recognize a right-of-use asset and a lease liability on the balance sheet for these charters and office leases based on the present value of future minimum lease payments, whereas currently no right-of-use asset or lease liability is recognized. The right of use asset and lease liability to be recognized on January 1, 2019 is $9.7 million. The pattern of expense recognition of chartered-in vessels is expected to remain substantially unchanged, unless the right of use asset becomes impaired. In addition, direct financing lease payments received will be presented as an operating cash inflow instead of an investing cash inflow in the statement of cash flows.

In June 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* (or *ASU 2016-13*). ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for the Company January 1, 2020, with a modified-retrospective approach. The Company is currently evaluating the effect of adopting this new guidance.

3. Business Operations

Significant Customers

The Company is engaged in shuttle tanker services whereby it transports crude oil from offshore oil field installations to onshore terminals and refineries through the operation of its 33 shuttle tankers. The Company's revenues are earned in international markets. The following table presents consolidated revenues for customers that accounted for more than 10% of the Company's consolidated revenues, for its sole operating segment during the year and period presented:

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

	Year Ended December 31, 2018		Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$		$
Petroleo Brasileiro S.A.	96,801	Royal Dutch Shell Plc	22,973
Royal Dutch Shell Plc	92,290	Equinor ASA (formerly Statoil ASA)	20,838
Equinor ASA (formerly Statoil ASA)	89,905	BP Plc	20,182
BP Plc	77,044	Petroleo Brasileiro S.A.	17,124
	356,040		**81,117**

4. Financial Instruments

a) Fair value measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents and restricted cash - The fair values of the Company's cash and cash equivalents and restricted cash approximate their carrying amounts reported in the accompanying consolidated balance sheets.

Derivative instruments - The fair value of the Company's derivative instruments is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates, foreign exchange rates and the current credit worthiness of both the Company and the derivative counterparties. The estimated amount is the present value of future cash flows. The Company transacts all of its derivative instruments through investment-grade rated financial institutions at the time of the transaction. The Company's interest rate swap agreement and foreign currency forward contracts require no collateral from these institutions.

Long-term debt - The fair value of the Company's fixed-rate and variable-rate long-term debt is based on quoted market prices or estimated using discounted cash flow analysis based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Company.

The Company categorizes its fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;
Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis, as well as the estimated fair value of the Company's financial instruments that are not accounted for at fair value on a recurring basis:

		December 31, 2018		December 31, 2017	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability)	Fair Value Asset (Liability)	Carrying Amount Asset (Liability)	Fair Value Asset (Liability)
		$	$	$	$
Recurring:					
Cash and cash equivalents and restricted cash	Level 1	99,200	99,200	96,314	96,314
Derivative instruments *(note 12)*					
Interest rate swap agreements	Level 2	1,543	1,543	441	441
Foreign currency forward contracts	Level 2	(2,306)	(2,306)	(582)	(582)
Other:					
Long-term debt, including current portion - public *(note 8)*	Level 1	(247,403)	(231,935)	(246,687)	(252,138)
Long-term debt, including current portion - non-public *(note 8)*	Level 2	(940,253)	(965,714)	(977,134)	(1,006,408)

b) Financing Receivables

The following table contains a summary of the Company's financing receivables by type of borrower and the method by which the Company monitors the credit quality of its financing receivables on a quarterly basis:

	Credit Quality Indicator	Grade	December 31, 2018 $	December 31, 2017 $
Direct financing lease	Payment activity	Performing	4,793	5,821

5. Revenues

The Company's primary source of revenues is chartering its shuttle tankers to its customers. The Company utilizes three primary forms of contracts, consisting of CoA's, time-charter contracts and bareboat charter contracts. During the year ended December 31, 2018, the Company also generated revenues from the operation of VOC systems on 13 of the Company's shuttle tankers.

Contracts of Affreightment

Voyages performed pursuant to a CoA for the Company's shuttle tankers are priced based on the pre-agreed terms in the CoA. The performance obligations within a voyage performed pursuant to a CoA, which will typically include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of the voyage, as measured using the time that has elapsed from commencement of performance. In addition, any expenses that are unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, are the responsibility of the vessel owner. Consideration for such voyages consists of a fixed daily hire rate for the duration of the voyage, the reimbursement of costs incurred from fuel consumed during the voyage, as well as fixed lump sum intended to compensate for time necessary for the vessel to return to the field following completion of the voyage. While such consideration is generally fixed, certain sources of variability exist, including variability in the duration of the voyage and the actual quantity of fuel consumed during the voyage. Payment for the voyage is not due until the voyage is completed. The duration of a single voyage will typically be less than two weeks. The Company does not engage in any specific tactics to minimize residual value risk due to the short-term nature of the contracts.

Time-Charter Contracts

Pursuant to a time-charter contract, the Company charters a vessel to a customer for a fixed period of time, generally one year or more. The performance obligations within a time-charter contract, which will include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of such contract, as measured using the time that has elapsed from commencement of performance. In addition, any expenses that are unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, are the responsibility of the customer, as long as the vessel is not off-hire. Hire is typically invoiced monthly in advance for time-charter contracts, based on a fixed daily hire amount. In certain long-term time-charters, the fixed daily hire amount will increase on an annual basis by a fixed amount to offset expected increases in operating costs. As a result of the Company accounting for compensation from such charters on a straight-line basis over the duration of the charter, such fixed increases in rate will result in revenues being accrued in the first half of the charter and such accrual drawn down in the last half of the charter. Some time charters include variable consideration components in the form of expense adjustments or reimbursements, incentive compensation and penalties. For example, certain time charters contain provisions that allow the Company to be compensated for increases in the Company's costs during the term of the charter. Such provisions may be in the form of annual hire rate adjustments for changes in inflation indices or in the form of cost reimbursements for vessel operating expenditures or drydocking expenditures. During periods in which the vessels go off-hire or minimum speed and performance metrics are not met, penalties may be imposed. Variable consideration under the Company's contracts is typically recognized as incurred as either such revenues are allocated and accounted for under lease accounting requirements or alternatively such consideration is allocated to the distinct period in which such variable consideration is earned. The Company does not engage in any specific tactics to minimize residual value risk.

The time charters for the three shuttle tankers servicing the East Coast Canada project can be canceled upon two years' notice. The time charters for four shuttle tankers in Brazil can be extended by up to ten years, at the election of the charterer. The time charters for the vessels serving the Equinor ASA (or *Equinor*) (formerly Statoil ASA) North Sea requirements under the terms of a master agreement are one year in length and are renewed for subsequent one-year periods. The number of vessels required under the terms of the master agreement may be adjusted annually based on the requirements of the fields serviced.

Bareboat Charter Contracts

Pursuant to a bareboat charter contract, the Company charters a vessel to a customer for a fixed period of time, generally one year or more, at rates that are generally fixed. However, the customer is responsible for operation and maintenance of the vessel with their own crew as well as any expenses that are unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. If the vessel goes off-hire due to a mechanical issue or any other reason, the monthly hire received by the vessel owner is normally not impacted by such events. The performance obligations within a bareboat charter, which will include the lease of the vessel to the charterer, are satisfied over the duration of such contract, as measured using the time that has elapsed from commencement of the lease. The customer is typically invoiced monthly in advance for bareboat charters, based on a fixed daily hire amount.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

Voyage Charters

Voyage charters are charters for a specific voyage. Voyage charters for the Company's shuttle tankers are priced on a current or "spot" market rate. The performance obligations within a voyage charter contract, which will typically include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of the voyage, as measured using the time that has elapsed from commencement of performance. In addition, expenses that are unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, are the responsibility of the vessel owner. The Company's voyage charters for shuttle tankers will normally contain a lease. Such determination involves judgment about the decision-making rights the charterer has within the contract. Consideration for such contracts is generally fixed, however certain sources of variability exist. Delays caused by the charterer result in additional consideration. Payment for the voyage is not due until the voyage is completed. The duration of a single voyage will typically be less than three months. The Company does not engage in any specific tactics to minimize residual value risk due to the short-term nature of the contracts.

Management Fees and Other

During the year ended December 31, 2018, the Company also generated revenues from the operation of VOC systems on 13 of the Company's shuttle tankers and the management of certain vessels on behalf of third parties who are the disponent owners or charterers of these assets. Such services include the arrangement of third party goods and services for the asset's disponent owners or charterers. The performance obligations within these contracts will typically consist of commercial management and administrative services. The performance obligations are satisfied concurrently and consecutively rendered over the duration of the management contract, as measured using the time that has elapsed from commencement of performance. Consideration for such contracts will generally consist of a fixed monthly management fee and all operational costs for the VOC systems. Management fees are typically invoiced monthly.

Revenue Table

The following table contains the Company's revenues for the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017 by contract type:

	Year Ended December 31, 2018	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$	$
Contracts of affreightment	198,448	41,405
Time charters	294,112	72,370
Bareboat charters	44,759	13,508
Voyage charters	28,027	3,472
Management fees and other [(1)(2)]	67,468	—
	632,814	130,755

(1) Represents the Company's revenue from contracts that do not contain a lease element for the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017.

(2) Includes revenues of $55.0 million related to a settlement agreement with Petróleo Brasileiro S.A. (*Petrobras*) in relation to the previously-terminated charter contract for the *HiLoad DP* unit, which was settled and paid in late-2018.

Contract Assets and Liabilities

Certain of the customer contracts that the Company enters into will result in situations where the customer will pay for consideration for performance to be provided in the following month or months. These receipts are a contract liability and will be presented as deferred revenue until performance is provided. In other cases, the Company will provide performance in the month or months prior to it being entitled to invoice for such performance. This will result in such receipts being reflected as a contract asset that is presented within other current assets. In addition to these short-term timing differences between the timing of revenue recognition and when the entity's right to consideration in exchange for goods or services is unconditional, the Company has long-term charter arrangements whereby it has received payments that are larger in the earlier periods of the arrangements. The following table presents the contract assets and contract liabilities on the Company's consolidated balance sheets associated with these long-term charter arrangements from contracts with customers.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

	December 31, 2018	January 1, 2018
	$	$
Contract Assets		
Current	4,884	1,566
Non-Current	14,472	13,983
	19,356	15,549
Contract Liabilities		
Current	500	500
Non-Current	1,854	2,353
	2,354	2,853

During the year ended December 31, 2018, the Company recognized revenue of $0.5 million that was included in contract liabilities on January 1, 2018.

Contract Costs

In certain cases, the Company incurs pre-operational costs that relate directly to a specific customer contract, that generate or enhance resources of the Company that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Those costs will primarily include costs incurred to reposition a vessel to a location where a charterer will take delivery of the vessel. In certain cases, the Company will need to make judgments about whether costs relate directly to a specific customer contract or whether costs were factored into the pricing of a customer contract and thus expected to be recovered. Such deferred costs are amortized over the duration of the customer contract. Amortization of such costs for the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017 was $1.7 million and nil, respectively.

At December 31, 2018 and 2017, the balance of assets recognized form the costs to fulfill a contract with a customer totaled $15.2 million and nil, respectively, and is categorized as vessel repositioning costs and included within other non-current assets in the consolidated balance sheets.

6. Goodwill

The carrying amount of goodwill for the Company was $127.1 million as of December 31, 2018 and 2017. In 2018 and 2017, the Company conducted its annual goodwill impairment review and concluded that no impairment had occurred.

7. Accrued Liabilities

	December 31, 2018	December 31, 2017
	$	$
Voyage and vessel expenses	19,933	41,198
Audit, legal and other general expenses	119	119
Interest including interest rate swaps	8,612	11,694
Payroll and benefits	3,242	2,610
	31,906	**55,621**

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

8. Long-Term Debt

	December 31, 2018	December 31, 2017
	$	$
Revolving Credit Facility due through 2022	475,000	575,000
Term Loan due through 2021	55,018	85,574
Term Loans due through 2030	303,672	191,916
Non-Public Bonds due 2024	123,938	140,697
Public Bonds due 2022	250,000	250,000
Total principal	1,207,628	1,243,187
Less debt issuance costs and other	(19,972)	(19,366)
Total debt	1,187,656	1,223,821
Less current portion	(142,456)	(159,012)
Long-term portion	1,045,200	1,064,809

As at December 31, 2018, the Company had one revolving credit facility (December 31, 2017 - one), which, as at such date, provided for borrowings of up to $475.0 million (December 31, 2017 - $575.0 million), and was fully drawn (December 31, 2017 - fully drawn). The total amount available under the revolving credit facilities reduces by $100.0 million (2019), $100.0 million (2020), $100.0 million (2021) and $175.0 million (2022). The revolving credit facility is guaranteed by the Company for all outstanding amounts and contain covenants that require the Company to maintain a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) in an amount equal to the greater of $35.0 million and 5.0% of the Company's total consolidated debt, a minimum ratio of twelve months' historical EBITDA relative to total interest expense and scheduled debt repayments of 1.20 times and a net debt to total capitalization ratio no greater than 75.0%. The revolving credit facility is collateralized by first-priority mortgages granted on 16 of the Company’s vessels, together with other related security.

As at December 31, 2018, two of the Company’s 50%-owned subsidiaries (December 31, 2017 - three) had a total of one outstanding term loan (December 2017 - two), which totaled $55.0 million (December 31, 2017 - $85.6 million). The remaining term loan reduces over time with quarterly payments and matures in 2021. The term loan is collateralized by first-priority mortgages on the two shuttle tankers to which the loan relates, together with other related security. As at December 31, 2018, the Company had guaranteed $27.5 million of the term loan, which represents its 50% share of the outstanding term loan and the other owner had guaranteed the remaining $27.5 million of the term loan.

As at December 31, 2018, the Company had three term loans (December 31, 2017 - one) outstanding secured by three shuttle tankers and four shuttle tanker newbuilding vessels (December 31, 2017 - three shuttle tankers) which totaled $303.7 million (December 31, 2017 - $191.9 million). The term loans reduce over time with semi-annual payments and have varying maturities through 2030. As at December 31, 2018, the Company or a subsidiary of the Company had guaranteed all of these term loans.

Interest payments on the revolving credit facility and the term loans are based on LIBOR plus margins. At December 31, 2018, the margins ranged between 1.85% and 4.30% (December 31, 2017 - 2.40% and 3.50%). The weighted-average interest rate on the Company's variable rate long-term debt as at December 31, 2018 was 5.5% (December 31, 2017 - 4.7%). This rate does not include the effect of the Company's interest rate swaps (see note 12) or fixed rate facilities.

In September 2013 and November 2013, the Company issued, in a U.S. private placement, a total of $174.2 million of ten-year senior bonds that mature in January 2024, to finance the *Bossa Nova Spirit* and the *Sertanejo Spirit* shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security and are guaranteed by subsidiaries of the Company. The Company makes semi-annual repayments on the bonds and as at December 31, 2018, the carrying amount of the bonds was $123.9 million (December 31, 2017 - $140.7 million).

In August 2017, the Company issued $250.0 million in senior unsecured bonds in the Norwegian bond market that mature in August 2022. These bonds are listed on the Oslo Stock Exchange. As at December 31, 2018, the carrying amount of the bonds was $250.0 million. The interest payments on the bonds are fixed at a rate of 7.125%.

The aggregate annual long-term debt principal repayments required to be made subsequent to December 31, 2018 are $143.2 million (2019), $156.3 million (2020), $167.6 million (2021), $443.5 million (2022), $147.5 million (2023) and $149.5 million (thereafter).

Certain of the Company’s revolving credit facility, term loans and bonds contain covenants, debt-service coverage ratio (or *DSCR*) requirements and other restrictions typical of debt financing secured by vessels that restrict the ship-owning subsidiaries from, among other things: incurring or guaranteeing indebtedness; changing ownership or structure, including mergers, consolidations, liquidations and dissolutions; paying dividends or distributions if the Company is in default or do not meet minimum DSCR requirements; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; or entering into a new line of business. Obligations under the Company’s credit facilities are secured by certain vessels, and if the Company is unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets. The Company has one revolving credit facility and three term loans that require the Company to maintain vessel values to drawn principal balance ratios of a minimum range of 100% to 125%. Such requirement is assessed either on a semi-annual or annual basis, with reference to vessel valuations compiled by one or more agreed upon third parties. Should the ratio drop below the required amount, the lender may request the Company to either prepay a portion of the loan in the amount of the shortfall or provide additional collateral in the amount of the shortfall, at the Company's option. As at December 31, 2018, these hull covenant ratios were estimated to range from 122% to 212% and the Company was in compliance with the minimum ratios required. The vessel values used in calculating these hull covenant ratios are the appraised values provided by third parties where available, or prepared by the Company based on second-hand sale and purchase market data. Changes in the shuttle tanker market could negatively affect these ratios.

As at December 31, 2018, the Company was in compliance with all covenants related to the credit facilities and consolidated long-term debt.

9. Leases

Charters-out

The cost, accumulated depreciation and carrying amount of the Company's vessels with charter-out contracts accounted for as operating leases at December 31, 2018 were $1.6 billion, $0.5 billion and $1.1 billion, respectively (2017 - $1.6 billion, $0.5 billion, and $1.1 billion, respectively). As at December 31, 2018, minimum scheduled future rentals under these then-in-place time charters and bareboat charters to be received by the Company, were approximately $2.0 billion, comprised of $304.3 million (2019), $277.3 million (2020), $267.3 million (2021), $234.2 million (2022), $188.1 million (2023) and $711.1 million (thereafter).

The minimum scheduled future revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after December 31, 2018, revenue from unexercised option periods of contracts that existed on December 31, 2018, or variable or contingent revenues. The amounts may vary given unscheduled future events such as vessel maintenance.

Direct Financing Lease

Leasing of certain VOC equipment is accounted for as a direct financing lease. As at December 31, 2018, the minimum lease payments receivable under the direct financing lease approximated $5.9 million (2017 - $7.6 million), including unearned income of $1.1 million (2017 - $1.9 million). As at December 31, 2018, future scheduled payments under the direct financing leases to be received by the Company, were approximately $5.9 million, comprised of $1.3 million (2019), $1.3 million (2020), $1.3 million (2021), $1.3 million (2022) and $0.6 million (2023).

Charters-in

As at December 31, 2018, minimum commitments owing by the Company under vessel operating leases by which the Company charters-in vessels were approximately $30.6 million (2019) and $2.2 million (2020). The Company recognizes the expense from these charters, which is included in time-charter hire expense, on a straight-line basis over the firm period of the charters.

10. Restructuring Charge

During the year ended December 31, 2018, the Company did not recognize a restructuring charge. During the period form the date of incorporation on July 5, 2017 to December 31, 2017, the Company recognized a restructuring charge of $0.2 million, relating to a reorganization and alignment of the Company's onshore staff.

11. Related Party Transactions

a) During the year ended December 31, 2018, three shuttle tankers (period of incorporation on July 5, 2017 to December 31, 2017 - two shuttle tankers) of the Company were employed on long-term time-charter-out contracts with subsidiaries of Teekay Corporation. Teekay Corporation, a portfolio manager of marine services to the global oil and natural gas industries, owns approximately 14% of Teekay Offshore Partners L.P.'s outstanding common units.

b) Teekay Offshore Partners L.P. and its wholly-owned subsidiaries provided a significant portion of the Company’s commercial, crew training, strategic, business development and administrative service needs. Such related party transactions were as follows for the year and period indicated:

	Year Ended December 31, 2018	Period from the date of incorporation July 5, 2017 to December 31, 2017
	$	$
Revenues [(1)]	46,930	11,858
Vessel operating expenses [(2)]	(13,866)	(5,114)
General and administrative [(3)]	(8,851)	(5,045)
Time-charter hire expense [(4)]	(53,565)	—

(1) Includes revenues from time-charter-out contracts with subsidiaries or affiliates of Teekay Corporation and management fees charged by one of the Company's subsidiaries to Teekay Corporation and its subsidiaries.

(2) Includes ship management and crew training services provided by Teekay Offshore Partners L.P. and its subsidiaries.

(3) Includes commercial, technical, strategic, business development and administrative management fees charged by Teekay Corporation and its subsidiaries or affiliates and Teekay Offshore Partners L.P. and its subsidiaries or affiliates.

(4) Includes time-charter hire expense with a subsidiary of Teekay Offshore Partners L.P. related to the HiLoad DP unit settlement with Petrobras.

c) At December 31, 2018, due from affiliates totaled $137.4 million (December 31, 2017 - $196.4 million) and due to affiliates totaled $124.7 million (December 31, 2017 - $158.7 million). Amounts due to and from affiliates are non-interest bearing and unsecured, and all current due to and from affiliates balances are expected to be settled within the next 12 months in the normal course of operations or from financings. Affiliates includes Teekay Corporation and certain of its wholly owned subsidiaries and Teekay Offshore Partners L.P. and certain of its subsidiaries.

d) During the year ended December 31, 2018, the Company sold the 1998-built shuttle tanker, the *Stena Alexita*, which had a carrying value of $7.5 million, to a subsidiary of Teekay Offshore Partners L.P. for net proceeds of $8.5 million, which resulted a gain of $1.0 million accounted for as an equity contribution. The vessel was included in a 50%-owned subsidiary of the Company.

12. Derivative Instruments

The Company uses derivative instruments to manage certain risks in accordance with its overall risk management policies.

Foreign Exchange Risk

The Company economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts. The Company has not designated, for accounting purposes, any of the foreign currency forward contracts held during the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017, as cash flow hedges.

As at December 31, 2018, the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (in thousands)	Fair Value / Carrying Amount of Asset (Liability) (in thousands of U.S. Dollars)	Average Forward Rate[(1)]	Expected Maturity 2019 (in thousands of U.S. Dollars)	2020
Norwegian Krone	230,000	(2,306)	8.01	25,609	3,095

(1) Average forward rate represents the contracted amount of foreign currency one U.S. Dollar will buy.

Interest Rate Risk

The Company enters into interest rate swaps, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. From January 1, 2018 to June 30, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017, the interest rate swap was designated in a qualifying hedging relationship and hedge accounting was applied in the consolidated financial statements. Subsequent to June 30, 2018, the Company de-designated, for accounting purposes, its interest rate swap. As at December 31, 2018, the Company was committed to the following interest rate swap agreement:

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

	Interest Rate Index	Notional Amount $	Fair Value / Carrying Amount of Assets (Liabilities) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) [(1)]
U.S. Dollar-denominated interest rate swap [(2)]	LIBOR	100,000	1,543	3.8	2.1%

(1) Excludes the margin the Company pays on its variable-rate debt, which at December 31, 2018, ranged from 1.85% to 4.30%.

(2) Notional amount remains constant over the term of the swap.

For the period indicated, the following table presents the effective and ineffective portion of the gain (loss) on interest rate swap agreements designated and qualifying as cash flow hedges.

Year Ended December 31, 2018

Effective Portion Recognized in AOCI[(1)]	Effective Portion Reclassified from AOCI[(2)]	Ineffective Portion[(3)]	
2,495	154	—	Interest expense

Period from the date of incorporation on July 5, 2017 to December 31, 2017

Effective Portion Recognized in AOCI[(1)]	Effective Portion Reclassified from AOCI[(2)]	Ineffective Portion[(3)]	
441	—	—	Interest expense

(1) Effective portion of designated and qualifying cash flow hedges recognized in accumulated other comprehensive income (or *AOCI*).

(2) Effective portion of designated and qualifying cash flow hedges recorded in AOCI during the term of the hedging relationship and reclassified to earnings.

(3) Ineffective portion of designated and qualifying cash flow hedges.

Tabular disclosure

The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Company's consolidated balance sheets.

	Current portion of derivative assets $	Derivative assets $	Accrued liabilities $	Current portion of derivative liabilities $	Derivative liabilities $
As at December 31, 2018					
Foreign currency contracts	—	—	—	(2,036)	(270)
Interest rate swap	608	935	—	—	—
	608	935	—	(2,036)	(270)
As at December 31, 2017					
Foreign currency contracts	104	28	—	(647)	(67)
Interest rate swap	—	677	(2)	(236)	—
	104	705	(2)	(883)	(67)

Total realized and unrealized gain (loss) on interest rate swaps and foreign currency forward contracts that are not designated for accounting purposes as cash flow hedges are recognized in earnings and reported in realized and unrealized loss on derivative instruments in the consolidated statements of income (loss) for the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017 as follows:

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

	Year Ended December 31, 2018 $	Period from the date of incorporation on July 5, 2017 to December 31, 2017 $
Realized gain (loss) on derivative instruments		
Interest rate swaps	135	(132)
Foreign currency forward contracts	(301)	(4)
	(166)	(136)
Unrealized loss on derivative instruments		
Interest rate swaps	(1,393)	—
Foreign currency forward contracts	(1,724)	(767)
	(3,117)	(767)
Total realized and unrealized loss on derivative instruments	**(3,283)**	**(903)**

The Company is exposed to credit loss in the event of non-performance by the counterparties, all of which are financial institutions, to the foreign currency forward contracts and the interest rate swap agreements. In order to minimize counterparty risk, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

13. Income Taxes

The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2018 $	December 31, 2017 $ (as adjusted) [2]
Deferred tax assets:		
Tax losses carried forward [1]	147,715	151,508
Other	2,887	(699)
Total deferred tax assets	150,602	150,809
Deferred tax liabilities		
Vessels and equipment	15,249	10,398
Other	2,463	365
Total deferred tax liabilities	17,712	10,763
Net deferred tax assets	132,890	140,046
Valuation allowance	(132,890)	(126,126)
Net deferred tax assets	—	13,920
Disclosed in:		
Deferred tax asset	—	13,920
Net deferred tax assets	—	13,920

(1) As at December 31, 2018, the income tax losses carried forward of $565.0 million (December 31, 2017 - $597.0 million as adjusted - see (2) below) are available to offset future taxable income in the applicable jurisdictions, of which $179.4 million can be carried forward indefinitely, $0.4 million will expire in 2019, $0.5 million will expire in 2020, $0.4 million will expire in 2021, $0.1 million will expire in 2022, $0.2 million will expire in 2023, $0.1 million will expire in 2024, $0.5 million will expire in 2025, $0.1 million will expire in 2026 and $383.3 million will expire in 2034.

(2) As the date of transfer to Teekay Shuttle Tankers L.L.C., one of the predecessor companies had incurred income tax losses that were available for carry forward and had not yet been filed with the relevant taxation authority. Based on the finalization of the Company subsidiary's tax return in that jurisdiction, the Company concluded that it had income tax loss carry forwards that were eligible for deduction in future periods of $597.0 million, which was $402.6 million more than had been recognized in the financial statements at December 31, 2017. On a tax adjusted basis, this increased the deferred income tax asset associated with tax losses carried forward by $104.7 million with an offsetting adjustment to the valuation allowance. There is no net impact on income, cash flows or other financial statement balances as a result of this adjustment.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

The components of the provision for income taxes are as follows:

	Year Ended December 31, 2018 $	Period from the date of incorporation on July 5, 2017 to December 31, 2017 $
Current	(994)	(94)
Deferred	(13,920)	1,998
Income tax (expense) recovery	(14,914)	1,904

The Company operates in countries that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. Reconciliations of the tax charge related to the current year at the applicable statutory income tax rates and the actual tax charge related to the current year are as follows:

	December 31, 2018 $	December 31, 2017 $
Net income (loss) before taxes	18,236	(6,854)
Net income (loss) not subject to taxes	(69,313)	418
Net income (loss) subject to taxes	87,549	(7,272)
At applicable statutory tax rates	14,895	(1,785)
Permanent differences	(15,434)	(610)
Adjustments related to currency differences	(7,673)	85
Valuation allowance and other	23,126	406
Tax recovery (expense) related to current year	14,914	(1,904)

The Company had no unrecognized tax benefits during the year ended December 31, 2018 and during the period from the date of incorporation on July 5, 2017 to December 31, 2017.

14. Write-down and Gain (Loss) on Sale of Vessels

During the year ended December 31, 2018, the Company sold the 1998-built shuttle tankers, the *Navion Scandia* and *Navion Britannia*, for net proceeds of $10.8 million and $10.4 million, respectively. The Company's consolidated statement of income (loss) for the year ended December 31, 2018 includes a $5.3 million gain related to the sale of these vessels.

During the year ended December 31, 2018, the Company sold the 2001-built shuttle tanker, the *Stena Spirit*, for net proceeds of $8.8 million. The Company's consolidated statement of income (loss) for the year ended December 31, 2018 includes a $0.4 million gain related to the sale of this vessel, which is included in a 50%-owned subsidiary of the Company.

During the year ended December 31, 2018, the carrying value of the *Nordic Spirit* and *Stena Spirit* shuttle tankers were written down to their estimated fair values, using appraised values, due to the redelivery of these vessels from their charterer after completing their bareboat charter contracts in May 2018 and the resulting change in expectations for the future opportunities for the vessels. The *Nordic Spirit* was classified as held for sale on the Company's consolidated balance sheet as at December 31, 2018. The Company's consolidated statement of income (loss) for the year ended December 31, 2018 includes a $29.7 million write-down related to these vessels, of which $14.8 million is included in a 50%-owned subsidiary of the Company.

During the period from the date of incorporation on July 5, 2017 to December 31, 2017, the Company sold the 1999-built shuttle tanker, the *Navion Marita,* for net proceeds of $5.7 million. The Company's consolidated statements of income (loss) for the period from the date of incorporation on July 5, 2017 to December 31, 2017 includes a $0.2 million loss related to the sale of this vessel.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

15. Supplemental Cash Flow Information

a) The changes in non-cash working capital items related to operating activities for the year ended December 31, 2018 and for the period from the date of incorporation on July 5, 2017 to December 31, 2017 are as follows:

	Year ended December 31, 2018	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$	$
Accounts receivable	9,502	(21,857)
Prepaid expenses and other	1,933	(3,073)
Accounts payable and accrued liabilities	(18,038)	13,065
Deferred revenue	(3,978)	(2,730)
Advances due (to) from affiliates	34,152	(108,559)
	23,571	(123,154)

b) Cash interest paid during the year ended December 31, 2018 and for the period from the date of incorporation on July 5, 2017 to December 31, 2017 totaled $70.5 million and $7.9 million, respectively.

c) In August 2017, the Company tendered for up to $250 million of U.S. Dollar bonds to be purchased in cash or in exchange for the existing NOK bonds of Teekay Offshore. Approximately $90.6 million of Teekay Offshore's NOK bonds were exchanged for the Company's U.S. Bonds which has been treated as a non-cash transaction in the Company's consolidated statements of cash flows.

d) During 2017, the Company acquired the Subsidiaries in exchange for $765.9 million, net of cash acquired of $89.1 million, of equity which has been treated as a non-cash transaction in the Company's consolidated statements of cash flows.

16. Commitments and Contingencies

In 2017, certain subsidiaries of the Company entered into shipbuilding contracts with Samsung Heavy Industries Co., Ltd. to construct four Suezmax Dynamic Positioning 2 (or *DP2*) shuttle tanker newbuildings, for an aggregate fully built-up cost of approximately $602 million. These newbuilding vessels are being constructed based on the Company's new *Shuttle Spirit* design which incorporates technologies to increase fuel efficiency and reduce emissions, including liquefied natural gas (or *LNG*) propulsion technology. Upon expected delivery in late-2019 through 2020, these vessels are to provide shuttle tanker services in the North Sea, with two to operate under the Company’s existing master agreement with Equinor, and two to operate directly within the North Sea CoA fleet. As at December 31, 2018, payments made towards these commitments were $72.9 million and the remaining payments required to be made are estimated to be $248.9 million (2019) and $279.7 million (2020). In 2018, the Company secured a debt facility, which as at December 31, 2018, provided total borrowings of up to $60.5 million for the newbuilding payments, of which $40.4 million was undrawn. The Company expects to secure additional long-term financing related to these shuttle tanker newbuildings.

In July 2018, certain subsidiaries of the Company entered into shipbuilding contracts with Samsung Heavy Industries Co. Ltd., to construct two Aframax DP2 shuttle tanker newbuildings, for an estimated aggregate fully built-up cost of $270 million. These newbuildings are being constructed based on the Company's new *Shuttle Spirit* design. Upon delivery in late-2020 through early-2021, these vessels will join the Company's CoA portfolio in the North Sea. As at December 31, 2018, payments made towards these commitments were $12.3 million and the remaining payments required to be made are estimated to be $57.7 million (2019), $122.3 million (2020) and $77.5 million (2021). The Company expects to secure long-term financing related to these shuttle tanker newbuildings.

17. Subsequent Events

On April 2, 2019 the Group secured a term loan totaling $413.8 million related to the first four shuttle tanker newbuilding vessels. The term loan reduces over time with semi-annual payments for each of the four shuttle tanker newbuilding vessels for which the term loan relates and matures in 2032. Each of the shuttle tanker newbuilding vessel owning subsidiaries of the Company has guaranteed a portion of the term loan relating to the vessel for which each subsidiary owns. The Group expects to draw on this facility in late-April 2019.

NON-CONSOLIDATED FINANCIAL STATEMENTS

TEEKAY SHUTTLE TANKERS L.L.C.

For the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017

The following supplemental non-consolidated financial statements of Teekay Shuttle Tankers L.L.C. (the "Parent Company") have been prepared on a non-consolidated basis in order to comply with the Securities Trading Act and reporting obligations of the Oslo Stock Exchange.

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Independent Auditors' Report

The Board of Directors
Teekay Shuttle Tankers L.L.C.:

Report on the Financial Statements

We have audited the accompanying separate financial statements of Teekay Shuttle Tankers L.L.C. (the "Entity"), which comprise the separate statement of financial position as of December 31, 2018, and the separate statements of loss, comprehensive loss, changes in total equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board which were prepared solely to comply with the financial reporting requirements of Section 5.5 of the Norwegian Securities Trading Act. Management responsibilities also includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of Teekay Shuttle Tankers L.L.C. as of December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Emphasis of Matter - Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the separate financial statements, which describes the basis of accounting. The separate financial statements of Teekay Shuttle Tankers L.L.C., with investments in subsidiaries accounted for by the cost method, have been prepared solely to comply with the reporting requirements of Section 5.5 of the Norwegian Securities Trading Act. As a result, the separate financial statements may not be suitable for another purpose.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 to the separate financial statements, the Entity has changed its accounting policies for financial instruments in 2018 due to the adoption of IFRS 9 – Financial Instruments. Our opinion is not modified with respect to this matter.

KPMG LLP

Vancouver, Canada
April 9th, 2019

TEEKAY SHUTTLE TANKERS L.L.C.

NON-CONSOLIDATED STATEMENTS OF LOSS

(in thousands of U.S. dollars)

	Year Ended December 31, 2018	Period from the date of incorporation July 5, 2017 to December 31, 2017
	$	$
Dividend income	18,150	7,700
General and administrative *(note 4)*	(1,113)	(505)
Impairment charge *(note 4)*	(7,877)	—
Operating income	9,160	7,195
Interest expense *(note 4)*	(50,551)	(14,771)
Interest income	509	523
Foreign exchange loss	(426)	(4)
Realized gain (loss) on derivative instruments *(note 7)*	135	(132)
Unrealized loss on derivative instruments *(note 7)*	(1,393)	—
Net loss attributable to member of Teekay Shuttle Tankers L.L.C.	(42,566)	(7,189)

The accompanying notes are an integral part of these non-consolidated financial statements.

TEEKAY SHUTTLE TANKERS L.L.C.

NON-CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands of U.S. dollars)

	Year Ended December 31, 2018	**Period from the date of incorporation July 5, 2017 to December 31, 2017**
	$	**$**
Net loss	(42,566)	(7,189)
Other comprehensive income:		
Other comprehensive income before reclassifications		
Unrealized gain on qualifying cash flow hedging instrument *(note 7)*	2,495	441
Accounts reclassified from accumulated other comprehensive income		
To interest expense:		
Realized (gain) on qualifying cash flow hedging instruments *(note 7)*	(154)	—
Other comprehensive income	2,341	441
Comprehensive loss	(40,225)	(6,748)

The accompanying notes are an integral part of the non-consolidated financial statements.

TEEKAY SHUTTLE TANKERS L.L.C.

NON-CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of U.S. dollars)

	As at December 31, 2018	As at December 31, 2017
	$	$
ASSETS		
Cash and cash equivalents	8,364	16,385
Due from subsidiaries - current *(note 4)*	464,527	521,223
Due from affiliates - current *(note 4)*	696	696
Current portion of derivative assets *(note 7)*	608	—
Total current assets	474,195	538,304
Investment in subsidiaries *(note 4)*	758,055	765,932
Derivative assets *(note 7)*	935	677
Total assets	1,233,185	1,304,913
LIABILITIES AND MEMBER'S EQUITY		
Current		
Accrued liabilities *(note 5)*	7,026	6,878
Current portion of derivative liabilities *(note 7)*	—	236
Due to affiliates - current *(note 4)*	267	1,824
Due to subsidiaries - current *(note 4)*	72,947	4,000
Current portion of long-term debt *(note 6)*	119,921	99,745
Total current liabilities	200,161	112,683
Long-term debt *(note 6)*	618,019	715,100
Total liabilities	818,180	827,783
Member's equity		
Contributions	495,978	483,878
Accumulated deficit	(83,755)	(7,189)
Accumulated other comprehensive income	2,782	441
Total member's equity	415,005	477,130
Total liabilities and member's total equity	1,233,185	1,304,913

Subsequent events *(note 11)*
The accompanying notes are an integral part of the non-consolidated financial statements.

Hamilton, Bermuda
April 9, 2019

/s/ Edith Robinson

Edith Robinson
Sole Director

TEEKAY SHUTTLE TANKERS L.L.C.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

	Year Ended December 31, 2018	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$	$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net loss	(42,566)	(7,189)
Non-cash items:		
Unrealized loss on derivative instruments (*note 7*)	1,393	—
Impairment loss *(note 4)*	7,877	—
Other	2,765	878
Change in non-cash working capital items related to operating activities *(note 8a)*	52,287	(76,065)
Net operating cash flow	21,756	(82,376)
FINANCING ACTIVITIES		
Proceeds from long-term debt *(note 6)*	20,176	759,446
Scheduled repayments of long-term debt *(note 6)*	(100,000)	(25,000)
Debt issuance costs	—	(11,033)
Cash distributions paid by the Company	(34,000)	—
Proceeds from revolver with a subsidiary *(note 4)*	71,947	—
Return of capital to member	—	(191,500)
Net financing cash flow	(41,877)	531,913
INVESTING ACTIVITIES		
Net investment in cost-accounted subsidiaries	—	(433,152)
Return of capital from subsidiaries	12,100	—
Net investing cash flow	12,100	(433,152)
(Decrease) increase in cash and cash equivalents	(8,021)	16,385
Cash and cash equivalents, beginning of year / period	16,385	—
Cash and cash equivalents, end of year / period	8,364	16,385

Supplemental cash flow information *(note 8)*

The accompanying notes are an integral part of these non-consolidated financial statements.

TEEKAY SHUTTLE TANKERS L.L.C.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

	Accumulated deficit $	Accumulated Other Comprehensive Income $	Contributed Surplus $	Total $
Balance as at July 5, 2017	—	—	—	—
Net loss	(7,189)	—	—	(7,189)
Contributions from member *(note 8d)*	—	—	765,932	765,932
Return of capital to member *(note 8c)*	—	—	(282,054)	(282,054)
Other comprehensive income	—	441	—	441
Balance as at December 31, 2017	(7,189)	441	483,878	477,130
Net loss	(42,566)	—	—	(42,566)
Cash distributions to member	(34,000)	—	—	(34,000)
Return of capital from subsidiaries	—	—	12,100	12,100
Other comprehensive income	—	2,341	—	2,341
Balance as at December 31, 2018	(83,755)	2,782	495,978	415,005

The accompanying notes are an integral part of these non-consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of presentation

During July 2017, Teekay Offshore Holdings L.L.C (*Teekay Offshore*), a 100% subsidiary of Teekay Offshore Partners L.P. formed Teekay Shuttle Tankers L.L.C., a Marshall Islands company (the *Company*). The Company had nominal assets or operations until October 3, 2017 when Teekay Offshore entered into an agreement to sell five wholly-owned subsidiaries and one 50% owned subsidiary (the *Subsidiaries*), which in aggregate controlled 35 shuttle tankers, including five shuttle tanker newbuildings and three chartered-in shuttle tankers, to the Company in exchange for $577.4 million, net of debt and working capital. The Subsidiaries consisted of Teekay Offshore Operating L.P., Teekay Shuttle Tanker Finance L.L.C., Lambada Spirit L.L.C., Samba Spirit L.L.C., Navion Bergen L.L.C. and Navion Gothenburg L.L.C. which the company has a 50% interest in. Teekay Offshore Operating L.P. owned 23 100% owned subsidiaries and five 50% owned subsidiaries. Teekay Shuttle Tanker Finance L.L.C. owned two 100% owned subsidiaries.

The main activity of the Company is to be a holding company of ship-owning subsidiaries.

The non-consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (or *IFRS*) as issued by the International Accounting Standards Board. These financial statements are prepared on a non-consolidated basis in order to comply with the Securities Trading Act of the Oslo Stock Exchange. The Company has also separately prepared and presented consolidated financial statements in accordance with U.S. generally accepted accounting principles.

These financial statements were authorized for issue by the Company's Board of Directors on April 9, 2019. The Company has evaluated subsequent events through this date.

Dividend income

Dividend income is recognized when the right to receive payment is established, which is when the dividend is approved by the general meeting of the subsidiary. Dividend income is recognized based on the accumulated earnings of the subsidiary and any excess distributions is recognized as a return of capital.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the non-consolidated financial statements and the reported amounts of revenue and expenses during the period. Although these estimates are based on management's best knowledge of the current events and actions, actual results may ultimately differ from those estimates. The area of estimation that management considered to the most significant is impairment of investment in subsidiaries.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are treated on a prospective basis.

Foreign Currency

The non-consolidated financial statements are stated in U.S. Dollars and the functional currency of the Company is the U.S. Dollar. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year end exchange rates. Resulting gains or losses are reflected separately in the non-consolidated statements of loss.

Cash and cash equivalents

The Company classifies all highly liquid investments with an original maturity date of three months or less when purchased as cash and cash equivalents.

Debt issuance costs

Debt issuance costs related to a recognized debt liability, including bank fees, commissions and legal expenses, are capitalized and amortized over the term of the relevant loan facility to interest expense using an effective interest rate method. Debt issuance costs are presented as a reduction from the carrying amount of that debt liability, unless no amounts have been drawn under the debt or the debt issuance costs exceed the carrying value of the related debt liability, in which case the debt issuance costs are presented as other non-current assets.

Fees paid to amend a non-revolving credit facility are associated with the extinguishment of the old debt instrument and included in determining the debt extinguishment gain or loss to be recognized. Any unamortized debt issuance costs would be written off. If a debt amendment is considered not to be a substantial amendment, then the fees would be associated with the replacement or modified debt instrument and, along with any existing unamortized debt issuance costs and premium or discount, would be amortized as an adjustment of interest expense over the remaining term of the replacement or modified debt instrument using the effective interest method. Other related costs incurred with third parties directly related to the modification, other than the loan amendment fee, are expensed as incurred.

Fees paid to amend revolving credit facilities are deferred and amortized over the term of the modified credit facility. If the borrowing capacity is increased as a result of the amendment, unamortized loan costs of the original facility would be deferred and amortized over the term of the modified credit facility. If the borrowing capacity is decreased as a result of the amendment, a proportionate amount, based on the reduction in borrowing capacity, of the unamortized debt issuance costs of the original facility would be written off and the remaining amount would be deferred and amortized over the term of the modified credit facility.

Investment in subsidiaries

In these non-consolidated financial statements, the Company accounts for investments in subsidiaries using the cost method of accounting. No income is recorded related to the investments in subsidiaries except for dividends received. If there is any indication of impairment, an impairment test is performed. If the carrying amount exceeds the recoverable amount, a write-down is made to this lower value. During the year ended December 31, 2018, the Company had an impairment charge of $7.9 million on its investments in subsidiaries (*note 4).*

Classification and measurement of financial instruments

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The classification of investments in debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Financial assets carried as FVTPL are initially recorded at fair value with all transaction costs expensed in the non-consolidated statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the non-consolidated statements of loss in the period in which they arise. Derivatives are categorized as FVTPL unless they are designated as hedges. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables, the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Derivative instruments

All derivative instruments are initially recorded at fair value as either assets or liabilities in the non-consolidated balance sheets and subsequently remeasured to fair value, regardless of the purpose or intent for holding the derivative. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and also qualifies and is designated for hedge accounting. During the year ended December 31, 2018 and for the period from the date of incorporation on July 5, 2017 to December 31, 2017, the Company's interest rate swap agreements were designated in qualifying hedging relationships and hedge accounting was applied in the non-consolidated financial statements.

When a derivative instrument is designated as a cash flow hedge, the Company formally documents the relationship between the derivative and the hedged item. This documentation includes the strategy and risk management for undertaking the hedge and method that will be used to evaluate the effectiveness of the hedge. Any hedge ineffectiveness is recognized immediately in earnings, as are any gains and losses on the derivative that are excluded from the assessment of hedge effectiveness. The Company does not apply hedge accounting if it is determined that the hedge was not effective or will no longer be effective, the derivative was sold or exercised, or the hedged item was sold, repaid or no longer possible of occurring. As at December 31, 2018, the Company has de-designated all hedging relationships and does not apply hedge accounting to any of its derivative instruments.

For derivative financial instruments designated and qualifying as cash flow hedges, changes in fair value of the effective portion of the derivative financial instrument are initially recorded as a component of accumulated other comprehensive income in equity. In the periods when the hedged item affects earnings, the associated fair value changes on hedging derivatives are transferred from equity to the corresponding earnings line item in the non-consolidated statements of loss. The ineffective portion of the change in fair value of the derivative financial instrument is immediately recognized in the interest expense line item of the non-consolidated statements of loss. If cash flow hedge is de-designated and the originally hedged item is still considered possible of occurring, the gains and losses initially recognized in equity remain there until the hedged item impact earnings, at which point it is transferred to the corresponding earning line item in the non-consolidated statements of loss. If the hedged item is no longer probable of occurring, the amounts recognized in equity are immediately transferred to the earnings line item in the non-consolidated statements of loss.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

For derivative financial instruments that are not designated or that do not qualify as accounting hedges the changes in the fair value of the derivative financial instruments are recognized in earnings.

2. Accounting Pronouncements

The financial statements have been prepared based on standards, amendments and interpretations effective for the year ending December 31, 2018.

During the year, the Company adopted IFRS 9 'Financial Instruments'. This standard was published in July 2014 and replaces the existing guidance in IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is substantially unchanged. The Company has changed its accounting policy with respect to the clarification of financial assets that were recognized at the date of transition, January 1, 2018. The new policy is included in note 1. The change did not impact the presentation or carrying value of any financial assets on the transition date.

As part of the implementation of this standard, the Company completed an assessment of its financial instruments as at January 1, 2018 in compliance with IFRS 9. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification under IAS 39	**New classification under IFRS 9**
Financial assets		
Cash and cash equivalents	Amortized cost	Amortized cost
Due from subsidiaries	Loans and receivables	Amortized cost
Due from affiliates	Loans and receivables	Amortized cost
Derivatives	FVTPL	FVTPL
Financial liabilities		
Accrued liabilities	Amortized cost	Amortized cost
Due to subsidiaries	Amortized cost	Amortized cost
Due to affiliates	Amortized cost	Amortized cost
Debt	Amortized cost	Amortized cost
Derivatives	FVTPL	FVTPL

The International Accounting Standards Board has issued the following standard that is not yet effective which may have an impact on the non-consolidated financial statements:

IFRS 16 *Leases* (effective date January 1, 2019) is not expected to impact the Company as the operations of the business occurs through the subsidiary entities.

3. Financial Instruments

a) Fair value measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents - The fair value of the Company's cash and cash equivalents approximates its carrying amount reported in the accompanying non-consolidated statements of financial position.

Derivative instruments - The fair value of the Company's derivative instruments is the estimated amount that the Company would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of both the Company and the derivative counterparties. The estimated amount is the present value of future cash flows. The Company transacts all of its derivative instruments through investment-grade rated financial institutions at the time of the transaction. The Company's interest rate swap agreements require no collateral from these institutions.

Long-term debt - The fair values of the Company's fixed-rate and variable-rate long-term debt are based on quoted market prices or estimated using discounted cash flow analysis, based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Company.

The Company categorizes its fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

Level 1. Observable inputs such as quoted prices in active markets;
Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table includes the estimated fair value, carrying value and categorization using the fair value hierarchy of those assets and liabilities that are measured at their estimated fair value on a recurring and non-recurring basis, as well as certain financial instruments that are not measured at fair value:

		December 31, 2018		December 31, 2017	
	Fair Value Hierarchy Level	**Carrying Amount Asset (Liability) $**	**Fair Value Asset (Liability) $**	**Carrying Amount Asset (Liability) $**	**Fair Value Asset (Liability) $**
Recurring:					
Cash and cash equivalents	Level 1	8,364	8,364	16,385	16,385
Interest rate swap agreement *(note 7)*	Level 2	1,543	1,543	441	441
Other:					
Long-term debt, including current portion - public *(note 6)*	Level 1	(247,403)	(231,935)	(246,597)	(252,138)
Long-term debt, including current portion - non-public *(note 6)*	Level 2	(490,537)	(500,425)	(568,248)	(578,831)

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

4. Related Parties and Investment in Group Entities

As at December 31, 2018 and December 31, 2017, the Company had the following subsidiaries.

Company Name	Jurisdiction of Incorporation	Proportion of Ownership Interest	Principal Activity	December 31, 2018 $	December 31, 2017 $
Teekay Shuttle Tanker Finance L.L.C.	Republic of The Marshall Islands	100.00%	Holding company	71,764	74,459
Navion Bergen L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Navion Bergen*	27,730	32,912
Lambada Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Lambada Spirit*	23,082	23,082
Samba Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Samba Spirit*	23,056	23,056
Navion Gothenburg L.L.C.	Republic of The Marshall Islands	50.00%	Owner of *Navion Gothenburg*	15,878	15,787
Teekay Offshore Operating L.P.	Republic of The Marshall Islands	99.09%	Holding company	596,545	596,545
Teekay Offshore Operating GP L.L.C.	Republic of The Marshall Islands	100.00%	No activity	—	—
Bossa Nova L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Bossa Nova Spirit*	—	—
Sertanejo Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Sertanejo Spirit*	—	—
Teekay Nordic Holdings Inc.	Republic of The Marshall Islands	100.00%	No activity	—	—
Stena Spirit L.L.C.	Republic of The Marshall Islands	50.00%	No activity	—	—
Nordic Rio L.L.C.	Republic of The Marshall Islands	50.00%	Owner of *Nordic Rio*	—	—
Partrederiet Stena Ugland Shuttle Tankers III DA	Republic of The Marshall Islands	50.00%	Owner of *Stena Natalita*	—	—
Peary Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Peary Spirit*	—	—
Amundsen Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Amundsen Spirit*	—	—
Nansen Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Nansen Spirit*	—	—
Scott Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Scott Spirit*	—	—
Teekay Offshore Operating Pte. Ltd.	Singapore	100.00%	No activity	—	—
Teekay Navion Offshore Loading Pte. Ltd.	Singapore	100.00%	Owner of *9 shuttle tankers*	—	—
Norsk Teekay Holdings Ltd.	Republic of The Marshall Islands	100.00%	No activity	—	—
Teekay European Holdings S.a.r.l.	Luxembourg	100.00%	No activity	—	—
Teekay Netherlands European Holdings B.V.	Netherlands	100.00%	No activity	—	—
Norsk Teekay AS	Norway	100.00%	No activity	—	—
Teekay Norway AS	Norway	100.00%	No activity	—	—
Ugland Nordic Shipping AS	Norway	100.00%	No activity	—	—
Partrederiet Stena Ugland Shuttle Tankers I DA	Norway	50.00%	Previous owner of *Stena Alexita*	—	—
Partrederiet Stena Ugland Shuttle Tankers II DA	Norway	50.00%	Owner of *Stena Sirita*	—	—
Navion Bergen AS	Norway	100.00%	No activity	—	—
Navion Gothenburg AS	Norway	100.00%	No activity	—	—
Aurora Spirit (Hull No 2241) AS	Norway	100.00%	Owner of Aurora Spirit	—	—
Rainbow Spirit (Hull No 2242) AS	Norway	100.00%	Owner of Rainbow Spirit	—	—
Tide Spirit (Hull No 2256) AS	Norway	100.00%	Owner of Tide Spirit	—	—
Current Spirit (Hull No 2257) AS	Norway	100.00%	Owner of Current Spirit	—	—
Teekay SHI Hull No 2286 AS	Norway	100.00%	Owner of Hull No. 2286	—	—
Teekay SHI Hull No 2287 AS	Norway	100.00%	Owner of Hull No. 2287	—	—
Teekay Grand Banks Shipping AS	Norway	100.00%	Owner of *Beothuk Spirit, Norse Spirit and Dorset Spiri*t	—	—
Teekay Grand Banks AS	Norway	100.00%	No activity	—	—
Teekay (Atlantic) Management ULC	Canada	100.00%	No activity	—	—
Teekay (Atlantic) Chartering ULC	Canada	100.00%	No activity	—	—
				758,055	**765,932**

With the exception of the first six entities, all other entities are indirect subsidiaries, the value of which is included in the first six entities.

During 2018, the carrying values of the Company's investments in Teekay Shuttle Tanker Finance L.L.C and and Navion Bergen L.L.C. were written down to their estimated fair values. The Company's non-consolidated statements of loss for the year ended December 31, 2018 includes an impairment charge of $7.9 million relating to the decreases in fair value.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

Transactions with related parties

Teekay Corporation, an affiliated company, and its wholly-owned subsidiaries provide substantially all of the Company's administrative service needs. For the year ended December 31, 2018, the Company's related party transactions include $0.2 million in general and administrative expenses relating to these services (period from the date of incorporation on July 5, 2017 to December 31, 2017 - $0.4 million).

Balance with subsidiaries

The Company provides financing to its subsidiaries through short-term loans. The amounts are without interest and have no fixed repayment terms. The fair values of the Company's balances due to / from subsidiaries approximate their carrying amounts reported in the accompanying non-consolidated statements of financial position.

	Balances with subsidiaries as at December 31, 2018		Balances with subsidiaries as at December 31, 2017	
	Short-term receivables	Short-term payables	Short-term receivables	Short-term payables
Company name	$	$	$	$
Amundsen Spirit L.L.C.	60,948	—	60,948	—
Lambada Spirit L.L.C.	59,638	—	75,037	—
Nansen Spirit L.L.C.	63,701	—	63,701	—
Peary Spirit L.L.C.	48,388	—	48,388	—
Samba Spirit L.L.C.	59,933	—	75,032	—
Scott Spirit L.L.C.	46,664	—	46,664	—
Teekay Grand Banks Shipping AS	26,634	—	47,500	—
Teekay Offshore Operating L.P.	21,800	—	77,100	—
Aurora Spirit (Hull No 2241) AS	23,254	—	6,005	—
Rainbow Spirit (Hull No 2242) AS	23,246	—	6,005	—
Tide Spirit (Hull No 2256) AS	12,859	—	—	—
Current Spirit (Hull No 2257) AS	4,806	—	—	—
Teekay SHI Hull No 2286 AS	6,078	—	—	—
Teekay SHI Hull No 2287 AS	6,078	—	—	—
Teekay Shuttle Tanker Finance L.L.C.	500	—	500	—
Teekay Navion Offshore Loading Pte. Ltd.(1)	—	71,947	3,000	—
Teekay Nordic Holdings Inc.	—	1,000	—	1,000
Teekay Norway AS	—	—	—	3,000
Teekay (Atlantic) Chartering U.L.C.	—	—	11,343	—
Balance with subsidiaries	**464,527**	**72,947**	**521,223**	**4,000**

(1) The Company has a revolving credit facility with Teekay Navion Offshore Loading Pte Ltd. based on LIBOR plus margin of 6% and is due on demand within 30 business days. As at December 31, 2018, the outstanding balance under the revolving credit facility is $71.9 million (December 31, 2017 - nil), of which $3.7 million (December 31, 2017 - nil) relates to accrued interest. During the year ended December 31, 2018, interest expense totaled $3.7 million (period from date of incorporation on July 5, 2017 to December 31, 2017 - nil).

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

Balance with affiliates

The Company provides and receives, advances from its affiliates through short-term loans. The amounts are without interest and have no fixed repayment terms. The fair values of the Company's balances due from / to affiliates approximate their carrying amounts reported in the accompanying non-consolidated statements of financial position.

	Balances with ultimate parent company and affiliate as at December 31, 2018		Balances with ultimate parent company and affiliate as at December 31, 2017	
	Short-term receivables	Short-term payables	Short-term receivables	Short-term payables
Company name	$	$	$	$
Teekay Offshore Partners L.P.	—	44	—	1,824
Teekay Offshore Chartering L.L.C	696	—	696	—
Teekay Shipping Limited	—	223	—	—
Balance with affiliates	696	267	696	1,824

5. Accrued Liabilities

	December 31, 2018	December 31, 2017
	$	$
Audit and other legal expenses	119	50
Interest including interest rate swaps	6,907	6,828
	7,026	6,878

6. Long-Term Debt

	December 31, 2018	December 31, 2017
	$	$
Revolving Credit Facility due through 2022	475,000	575,000
Public Bonds due through 2022	250,000	250,000
Term Loan due 2019	20,178	—
Total principal	745,178	825,000
Less debt issuance costs and other	(7,238)	(10,155)
Total debt	737,940	814,845
Less current portion	(119,921)	(99,745)
Long-term portion	**618,019**	**715,100**

As at December 31, 2018, the Company had one revolving credit facility (December 31, 2017 - one), which, as at such date, provided for borrowings of up to $475.0 million (December 31, 2017 - $575.0 million), and was fully drawn (December 31, 2017 - fully drawn). The total amount available under the revolving credit facility reduces by $100.0 million (2019), $100.0 million (2020), $100.0 million (2021), and $175.0 million (2022). The revolving credit facility is collateralized by first-priority mortgages granted on 16 of the subsidiaries' vessels, together with other related security.

In August 2017, the Company issued $250.0 million in senior unsecured bonds in the Norwegian bond market that mature in August 2022. These bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are fixed at a rate of 7.125%.

The revolving credit facility and bonds contain covenants that require the Company to maintain a minimum consolidated liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) and an amount equal to the greater of $35.0 million and 5.0% of the Company's total consolidated debt, a minimum ratio of twelve months' historical EBITDA relative to total interest expense and scheduled debt repayments of 1.20 times and a net debt to total capitalization ratio no greater than 75.0%.

As at December 31, 2018, the Company had one term loan (December 31, 2017 - none) outstanding secured by four shuttle tanker newbuilding vessels which totaled $20.2 million (December 31, 2017 - nil) and that matures in 2019.

Interest payments on the revolving credit facility and the term loan are based on LIBOR plus margins. At December 31, 2018, the margins were 3.00% and 2.25% (December 31, 2017 - revolving credit facility margin was 3.00%), respectively. The weighted-average effective interest rate on the Company's variable rate long-term debt as at December 31, 2018 was 5.75% (December 31, 2017 - 4.69%). This rate does not include the effect of the Company's interest rate swap (see note 7).

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

Obligations under the Company's credit facilities are secured by certain of the subsidiaries' vessels. As at December 31, 2018, the Company was in compliance with all the covenants related to the revolving credit facility and bonds.

The following table provides a reconciliation of long-term debt to cash flows arising from financing activities:

	Liabilities		
	Long-term portion of long-term debt $	Current portion of long-term debt $	Total $
Balance at July 5, 2017	—	—	—
Proceeds from long-term debt	659,446	100,000	759,446
Debt issuance costs paid	(10,778)	(255)	(11,033)
Repayments of borrowings	(25,000)	—	(25,000)
Total changes in long-term debt from financing cash flows	623,668	99,745	723,413
Non-cash changes *(note 8)*	90,554	—	90,554
Amortization of debt issuance costs	878	—	878
Balance, long-term debt as at December 31, 2017	715,100	99,745	814,845
Proceeds from long-term debt	—	20,176	20,176
Repayments of borrowings	(100,000)	—	(100,000)
Total changes in long-term debt from financing cash flows	615,100	119,921	735,021
Amortization of debt issuance costs	2,919	—	2,919
Balance, long-term debt as at December 31, 2018	618,019	119,921	737,940

7. Derivative Instruments

The Company uses derivative instruments to manage certain risks in accordance with its overall risk management policies.

Interest Rate Risk

The Company enters into interest rate swaps, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. From January 1, 2018 to June 30, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017, the interest rate swap was designated in a qualifying hedging relationship and hedge accounting was applied in the consolidated financial statements. Subsequent to June 30, 2018, the Company de-designated, for accounting purposes, its interest rate swap. As at December 31, 2018, the Company was committed to the following interest rate swap agreement:

	Interest Rate Index	Notional Amount $	Fair Value / Carrying Amount of Assets (Liabilities) $	Weighted - Average Remaining Term (years)	Fixed Interest Rate (%) [1]
U.S. Dollar-denominated interest rate swap[2]	LIBOR	100,000	1,543	3.8	2.1%

(1) Excludes the margin the Company pays on its variable-rate debt, which at December 31, 2018, ranged from 2.25% to 3.00%.

(2) Notional amount remains constant over the term of the swap.

For the period indicated, the following table presents the effective and ineffective portion of the gain (loss) on interest rate swap agreements designated and qualifying as cash flow hedges.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

Year Ended December 31, 2018			
Effective Portion Recognized in AOCI(1)	Effective Portion Reclassified from AOCI (2)	Ineffective Portion(3)	
2,495	154	—	Interest expense

Period from the date of incorporation on July 5, 2017 to December 31, 2017			
Effective Portion Recognized in AOCI(1)	Effective Portion Reclassified from AOCI (2)	Ineffective Portion(3)	
441	—	—	Interest expense

(1) Effective portion of designated and qualifying cash flow hedges recognized in accumulated other comprehensive income (or *AOCI*).

(2) Effective portion of designated and qualifying cash flow hedges recorded in AOCI during the term of the hedging relationship and reclassified to earnings.

(3) Ineffective portion of designated and qualifying cash flow hedges.

Tabular disclosure

The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Company's non-consolidated balance sheets.

	Current Portion of Derivative Assets $	Other Non-Current Assets $	Accrued Liabilities $	Current Portion of Derivative Liabilities $
As at December 31, 2018				
Interest rate swap	608	935	—	—
	608	935	—	—
As at December 31, 2017				
Interest rate swap	—	677	(2)	(236)
	—	677	(2)	(236)

Total realized and unrealized gain (loss) on interest rate swaps that are not designated for accounting purposes as cash flow hedges are recognized in earnings and reported in realized and unrealized loss on derivative instruments in the non-consolidated statements of loss for the year ended December 31, 2018 and the period from the date of incorporation on July 5, 2017 to December 31, 2017 as follows:

	Year ended December 31, 2018 $	Period from the date of incorporation on July 5, 2017 to December 31, 2017 $
Realized gain (loss) on derivative instruments		
Interest rate swap	135	(132)
	135	(132)
Unrealized loss on derivative instruments		
Interest rate swap	(1,393)	—
	(1,393)	—

The Company is exposed to credit loss in the event of non-performance by the counterparties, all of which are financial institutions, to the foreign currency forward contracts and the interest rate swap agreements. In order to minimize counterparty risk, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

8. Supplemental Cash Flow Information

a) The changes in non-cash working capital items related to operating activities for the year ended December 31, 2018 and for the period from the date of incorporation on July 5, 2017 to December 31, 2017 are as follows:

	Year ended December 31, 2018	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$	$
Accrued liabilities	148	6,878
Due to (from) affiliates, subsidiaries and ultimate parent company	49,139	(82,943)
	49,287	(76,065)

b) Cash interest paid during the year ended December 31, 2018 and for the period from the date of incorporation on July 5, 2017 to December 31, 2017 totaled $47.4 million and $6.7 million, respectively.

c) In August 2017, the Company tendered for up to $250 million of U.S. Dollar bonds to be purchased in cash or in exchange for the existing NOK bonds of Teekay Offshore. Approximately $90.6 million of Teekay Offshore's NOK bonds were exchanged for the Company's U.S. Bonds which has been treated as a non-cash transaction in the Company's non-consolidated statements of cash flows.

d) During 2017, the Company's subsidiaries were acquired from Teekay Offshore Holdings L.L.C. in exchange for $577.4 million of equity which has been treated as a non-cash transaction in the Company's non-consolidated statements of cash flows.

9. Capital Management

The Company's capital is composed of member's equity, long-term debt and cash and cash equivalents. The Company maintains a capital level that enables it to acquire, operate and sell shuttle tankers and meet financial covenants under the secured credit facility.

In order to main or adjust its capital structure, the Company may issue new debt, refinance existing debt, acquire of dispose of assets or adjust the amount of cash and cash equivalent balances.

The Company's credit facility and U.S. Dollar bonds have financial covenants with which the Company must comply. Non-compliance with such covenants could result in accelerated payment of the related credit facility and reclassification of the amounts to current liabilities. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a quarterly basis.

As at December 31, 2018, the Company was in compliance with all its covenants in respect of both the credit facility and the U.S. Dollar bonds. The Company is not subject to any externally imposed capital restrictions.

10. Financial Risk Management

Credit Risk

Credit risk refers to the risk that a counterparty defaults on its contractual obligations resulting in a financial loss to the Company. The Company is exposed to credit risk from its financing activities, including cash and cash equivalents, derivative assets, due from subsidiaries and due from affiliates. The Company's cash and cash equivalents are deposited and derivative asset counterparties are agreed with internationally recognized financial institutions with a high credit rating, therefore the assessed credit risk is minimal. We have considered the credit risk associated with our due from subsidiaries and due from affiliates based on the projected cash flows of the underlying vessels and have concluded that no allowance for credit losses is required.

Market Risk

Interest Rate Risk

The Company is exposed to the impact of interest rate changes primarily through floating-rate borrowings that require the Company make interest payments based on LIBOR. Significant increases in interest rates could adversely affect operating margins, results of operations and the ability to service the Company's $495 million of floating-rate debt. The Company may use interest rate swaps to reduce exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with the Company's floating-rate debt. The Company is committed to one interest rate swap with a notional amount of $100 million to reduce its exposure to market risk from changes in interest rates as at December 31, 2018 (December 31, 2017 - one).

Based on the given capital structure as of December 31, 2018, it is estimated that a 1% change in LIBOR would impact the Company's net loss and comprehensive loss by $4.0 million (December 31, 2017 - $4.8 million).

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

Foreign Currency Risk

The Company's functional currency is U.S. Dollars. The Company's primary economic environment is the international shipping market. Transactions in this market generally utilize U.S. Dollars. Consequently, virtually all of the Company's revenues and the expenses are in U.S. Dollars. As at December 31, 2018, the Company did not have any significant exposure to foreign exchange risk.

Liquidity Risk

Liquidity risk is the risk that Company will not have sufficient funds to meet its liabilities, including it's long-term debt obligations. The Company's primary sources of liquidity are cash and cash equivalents and cash flows provided by the Company's subsidiaries including dividends from its subsidiaries and the repayment of balances due from affiliates. There is a risk that the Company's subsidiaries may not be able to provide the Company with cash flows due to restrictions contained in certain of the Company's subsidiaries long-term debt agreements. As at December 31, 2018, one of the Company's subsidiaries did not meet certain requirements that restricts the subsidiary from paying dividends for a period of six months. The Company maintains liquidity and makes adjustments to it in light of changes in economic conditions, underlying risks inherent in its operations and capital requirements to maintain operations. As at December 31, 2018. the Company has $120 million of financial liabilities that mature within the next twelve months.

The following are the remaining contractual maturities of financial liabilities at the reporting date:

		Contractual cash flows(3)				
December 31, 2018	**Carrying amount**	**Total**	**2019**	**2020**	**2021**	**2022**
Revolving credit facility(1)	475,000	535,315	124,633	118,837	113,041	178,804
Public bonds(2)	250,000	309,377	17,813	17,813	17,813	255,938
Term loan(1)	20,178	20,338	20,338	—	—	—
Accrued liabilities	7,026	7,026	7,026	—	—	—
Total	752,204	872,056	169,810	136,650	130,854	434,742

(1) Contractual cash flows are inclusive of projected interest payments based on the LIBOR curve at December 31, 2018.
(2) Contractual cash flows are inclusive of fixed interest rate of 7.125%
(3) The presentation is exclusive of potential cash flows on derivative instruments as such instruments were in an asset position at the financial position date.

11. Subsequent Events

On April 2, 2019 the Company secured a term loan totaling $413.8 million related to the first four shuttle tanker newbuilding vessels. The term loan reduces over time with semi-annual payments for each of the four shuttle tanker newbuilding vessels for which the term loan relates and matures in 2032. Each of the shuttle tanker newbuilding vessel owning subsidiaries of the Company has guaranteed a portion of the term loan relating to the vessel for which each subsidiary owns. The Company expects to draw on this facility in late-April 2019.