TEEKAY SHUTTLE TANKERS L.L.C.

ANNUAL REPORT

2017

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, to fund capital expenditures, 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 and Brookfield Business Partners L.P. together with its institutional partners 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. may 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, including the shuttle tanker newbuildings;
- expected employment and trading of older shuttle tankers;
- our expectations regarding competition in the markets we serve;
- 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 Kroner;
- 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;
- the conclusion of the investigation into allegations of improper payments by one of our subsidiaries to Brazilian agents;
- 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.

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 2017

Introduction

Teekay Shuttle Tankers L.L.C. is the world's largest 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 provider of marine transportation, oil production, storage, long-distance towing and offshore installation and maintenance and safety services to the oil industry, 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 the shuttle tankers will move oil from the oil field 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.

The Company acquired five wholly owned subsidiaries and one 50% subsidiary from Offshore Holdings, which in aggregate controlled 35 shuttle tankers, including five shuttle tanker newbuildings and three in-chartered shuttle tankers, in exchange for $577.4 million of equity in the Company. Included in the subsidiaries was cash of $89.1 million.

Teekay Shuttle Tankers is a market leader for providing shuttle tanker services, whose customer base consists of primarily oil majors and producers and whose assets 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 East Coast of Canada.

Teekay Shuttle Tanker's business strategy is primarily focused on implementing existing growth projects and extending contracts and pursuing strategic growth projects. The Company may enter into joint ventures and partnerships with companies that may provide increased access to charter opportunities. The Company seeks to leverage the expertise, relationships and reputation of 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 January 1, 2018, the Company's fleet consisted of 36 shuttle tankers, including five newbuildings on order and three in-chartered shuttle tankers. Of the 33 owned shuttle tankers, 29 are held by wholly owned subsidiaries and six are held by 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 substantially all of its personnel and the services it requires to run its business, including substantially all of the Group's managerial, operational and administrative services (including vessel maintenance, crewing, crew training, purchasing, shipyard supervision, insurance and financial services) and other technical and advisory services. The Group's business will 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, refinancing and equity capital 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 or equity 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**. Global crude oil prices have significantly declined since mid- 2014. Declines 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 many 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 Company will no longer generate revenue under the related contract and will need to seek to redeploy affected vessels. If the Group Company 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 newbuildings, 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, bad weather, mechanical failures, grounding, capsizing, fire, explosions and collisions, piracy, 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, liabilities or costs to recover any spilled oil or other petroleum products, liabilities or costs to restore the ecosystem 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's loans under its secured credit facilities are expected to bear interest at a floating rate based on LIBOR or NIBOR (or another commonly used rate) which will be subject to market volatility. Increases in the floating interest rate would increase the Group's debt servicing costs, which, in turn, could have an adverse effect on the Group's earnings and cash flow. 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 contracts of affreightment (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 production pattern. 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 at times may be 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.

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. 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 Companies 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 tables provide additional information about the Group's shuttle tankers, including newbuildings, as of December 31, 2017:

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, PGING, Enquest, Premier Oil, Shell, Statoil, Marathon[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 Anglia	126,400	1999	100%	DP2	North Sea	CoA		
Navion Scandia[4]	126,700	1998	100%	DP2	North Sea	CoA		
Navion Britannia[4,5]	124,200	1998	100%	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	July 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	Statoil [6]	March 2018
Nansen Spirit	109,300	2010	100%	DP2	North Sea	TC	Statoil [6]	March 2018
Stena Sirita	126,900	1999	50%[3]	DP2	North Sea	TC	Esso	January 2019
Stena Alexita[4]	127,000	1998	50%[3]	DP2	North Sea	TC	Statoil [6]	March 2018
Jasmine Knutsen[7]	148,600	2005	In-chartered (until January 2018)	DP2	Canada	TC	ExxonMobil, Canada Hibernia, Chevron, Husky, Mosbacher, Murphy, Nalcor, Statoil, Suncor[2]	January 2018
Heather Knutsen[7]	148,600	2005	In-chartered (until December 2018)	DP2	Canada	TC		January 2018
Navion Hispania[7]	126,200	1999	100%	DP2	Canada	TC		May 2018
Beothuk Spirit[7]	148,200	2017	100%	DP2	Canada	TC		May 2030
Norse Spirit[7]	148,200	2017	100%	DP2	Canada	TC		May 2030
Dorset Spirit[7]	148,200	2018	100%	DP2	Canada	NB		May 2030
Navion Gothenburg	152,200	2006	50%[3]	DP2	Brazil	BB	Petrobras[8]	July 2020
Navion Stavanger	148,700	2003	100%	DP2	Brazil	BB	Petrobras[8]	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
Nordic Spirit	151,300	2001	100%	DP	Brazil	BB	Petrobras	June 2018
Stena Spirit	151,300	2001	50%[3]	DP	Brazil	BB	Petrobras	June 2018
Navion Bergen	105,600	2000	100%	DP2	Brazil	BB	Petrobras[8]	April 2020
Nordic Brasilia	151,300	2004	100%	DP	Far-East	Spot		
Nordic Rio	151,300	2004	50%[3]	DP	Far-East	Spot		
SHI Hull No. 2241[9]	129,830	2019	100%	DP2	North Sea	NB		
SHI Hull No. 2242[9]	129,830	2020	100%	DP2	North Sea	NB		
SHI Hull No. 2256[9]	129,830	2020	100%	DP2	North Sea	NB		
SHI Hull No. 2257[9]	129,830	2020	100%	DP2	North Sea	NB		
Total capacity	4,754,920							

(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) The vessel will turn 20 years old in 2018 and will no longer be able to trade in the North Sea contract of affreightment fleet.

(5) The vessel is capable of loading from a submerged turret loading buoy.

(6) Under the terms of a master agreement with Statoil, 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 Statoil annually. The vessels currently on time-charter to Statoil may be replaced by vessels currently servicing contracts of affreightment or other time-charter contracts.

(7) The two in-chartered vessels were replaced with the *Beothuk Spirit* and the *Norse Spirit* in late-2017 and early-2018, respectively. The *Jasmine Knutsen* was redelivered to its owner in early-2018 and the *Heather Knutsen* was transferred to the North Sea shuttle tanker contracts of affreightment fleet on an in-charter contract until late-2018. The *Navion Hispania* is planned to be replaced by the *Dorset Spirit*, which delivered in March 2018, and will then transfer to the North Sea shuttle tanker contracts of affreightment fleet.

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

(9) Two of the four Samsung newbuildings will operate in the North Sea contract of affreightment fleet and two will operate under the master agreement with Statoil.

Market

As of December 1, 2017, there were approximately 82 vessels in the world shuttle tanker fleet (including 7 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 January 1, 2018, the Group owned 33 shuttle tankers (including five vessels under construction), in which its ownership interests ranged from 50% to 100%, and chartered-in an additional three 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 January 1, 2018 controlled fleets ranging from five to 29 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 (*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, Teekay Shuttle Tankers owns VOC systems on 10 of its shuttle tankers. 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.

As at December 31, 2017, the Group 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	LIBOR	100,000	439	4.8	2.1%

(1) Excludes the margin the Company pays on its variable-rate debt, which at December 31, 2017, ranged from 2.25% to 3.50%.

Foreign Currency Fluctuation Risk

The Group's functional currency is the U.S. Dollar because virtually all of our revenues and most of our operating costs are in U.S. Dollars. We incur certain vessel operating expenses, general and administrative expenses and a portion of our capital conversion and upgrade projects in foreign currencies, the most significant of which is the Norwegian Kroner and, to a lesser extent, Brazilian Real, British Pound, Euro, Canadian Dollar and Singapore Dollar. For the period from incorporation on July 5, 2017 to December 31, 2017 approximately

28.5% of vessel operating costs and general and administrative expenses were denominated in Norwegian Kroner. 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, 2017, 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 2018	2019
				(in thousands of U.S. Dollars)	
Norwegian Kroner	315,000	(582)	8.02	32,406	6,849

(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, 2017, 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 Company's financial performance. We are exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

The Group's loans and bond contain certain covenants and other restrictions that the Group believes are typical of debt financing collateralized by vessels, including those that restrict the relevant subsidiaries from: incurring or guaranteeing additional indebtedness; making certain negative pledges or granting certain liens; and selling, transferring, assigning or conveying assets.

Both the Group's revolving credit facility and the Bonds are guaranteed by the Company for all outstanding amounts and contains covenants that require the Group 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 Group's total consolidated debt, a minimum ratio of twelve months' historical EBITDA relative to total interest expense of 1.20 times and a net debt to total capitalization ratio no greater than 75.0%. In addition, the revolving credit facility is collateralized by first-priority mortgages granted on 18 of the Group's vessels, together with other related security.

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 2017, the Group had five newbuildings on order. The Group has dedicated on-site personnel who supervise the building process. There is performance risk associated with the newbuildings.

There were no major unforeseen events of a financial nature during the period of incorporation on July 5, 2017 to December 31, 2017. The liquidity risk of the Group is considered to be acceptable. Long-term debt financing is in place for the last of three newbuildings that delivered in March 2018 to serve the East Coast Canada contract of affreightment starting in April 2018, which was refinanced in March 2018. The Company expects to enter into new long-term debt financing related to the four shuttle tanker newbuildings ordered in 2017.

Review of 2017 Including Subsequent Events

In July 2017, the Company was incorporated as a Marshall Islands company by Teekay Offshore Holdings L.L.C (*Offshore Holdings*), a 100% owned subsidiary of Teekay Offshore.

In August 2017, the Company completed an offering of $250 million of senior unsecured bonds in the Norwegian bond market. The interest payments on the bonds are fixed at 7.125 percent and the bonds mature in August 2022. The bonds were listed on the Oslo stock exchange in April 2018.

In October 2017, a majority of the shuttle tanker fleet was refinanced with a new $600.0 million, five-year debt facility within the Group.

In October 2017, the Group acquired Teekay Offshore Operating L.P, Teekay Shuttle Tanker Finance L.L.C, Lambada Spirit L.L.C. and Navion Bergen L.L.C. and a 50% interest in Navion Gothenburg L.L.C. from Offshore Holdings for total non-cash consideration of $577.4 million, net of cash acquired of $89.1 million. Teekay Shuttle Tanker Finance L.L.C has two 100% owned subsidiaries, each of which own a shuttle tanker. Teekay Offshore Operating L.P has 23 100% owned subsidiaries and five 50% owned subsidiaries.

In October 2017 and November 2017, the Group took delivery of the first two East Coast of Canada shuttle tanker newbuildings, the *Beothuk Spiri*t and the *Norse Spirit,* which commenced the 15-year charter contracts (of which approximately 12.5 years remain as the initial period of the contract was serviced by time-chartered in shuttle tankers), plus extension options in December 2017 and January 2018, respectively, with a group of oil companies, and the *Dorset Spirit* is expected to commence the 15-year charter contracts (of which approximately 12.5 years remain), plus extension options in mid-2018. These newbuildings are replacing the existing in-chartered vessels servicing the East Coast of Canada, with the first replaced vessel redelivering to its owner and the second replaced vessel transferring to the North Sea to operate in the Group's contract of affreightment (or CoA) fleet.

In November 2017, the Group delivered the *Navion Marita* to its buyers. The Group received gross proceeds of $5.7 million, resulting in a loss on sale of approximately $0.2 million recorded during the fourth quarter of 2017.

In July 2017, one of the subsidiaries that was subsequently acquired by the Company entered into shipbuilding contracts with Samsung Heavy Industries Co. Ltd., to construct two Suezmax DP2 shuttle tanker newbuildings, for an aggregate fully built-up cost of approximately $294 million, with options to order up to two additional vessels. These newbuilding vessels will be constructed based on our *New Shuttle Spirit* design which incorporates technologies to increase fuel efficiency and reduce emissions, including LNG propulsion technology. Upon delivery in late-2019 and early-2020, these vessels will provide shuttle tanker services in the North Sea under the Group's existing master agreement with Statoil, which will add vessel capacity to service the Group's CoA portfolio in the North Sea.

In late-November 2017, the Group declared options with Samsung for the construction of two additional, Suezmax-sized, DP2 shuttle tanker newbuildings for a total fully-built-up cost of approximately $293 million. Upon scheduled delivery of these two vessels in 2020, they will join the Group CoA portfolio in the North Sea.

Subsequent to December 31, 2017, the Group has considered challenges associated with shuttle tankers that have approached 20 years of age in recent years and has reassessed the useful life of the tanker component to 20 years. This change in estimate, commencing January 1, 2018, impacts 21 vessels in the Company's shuttle tanker fleet. The effect of this change in estimates will amount to an increase in depreciation and amortization expense and a decrease in net income of approximately $17.2 million on a pro-forma basis based on the fleet owned at December 31, 2017.

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.

Subsequent to year end, the carrying value of the Nordic Spirit and Stena Spirit shuttle tankers were written down to their estimated fair values, using appraised values, as notice of redelivery was received by the Company in April 2018. The vessels are expected to be redelivered by the charterer after completing their bareboat charter contracts in June 2018, resulting in a change in our expectations for the future employment opportunities for the vessels. The write-down related to these vessels is $28.5 million of which $14.2 million is included in a 50%-owned subsidiary of the Company.

Financial Review

The consolidated financial statements for 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 (or *GAAP*). The non-consolidated financial statements for 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 (or *IFRS*). Except where specifically identified, the financial information presented below has been prepared on a consolidated basis.

Income Statement

Revenues from the date of incorporation on July 5, 2017 to December 31, 2017 were $130.8 million, and income from vessel operations for the same period was $15.5 million based on the results of the 31 shuttle tankers that were in operation from the date of acquisition of the subsidiaries.

Voyage expenses, which primarily represent bunker fuels costs and are substantially reimbursed from the charterers of the Company's vessels, was $21.8 million from the date of the acquisition of the subsidiaries to December 31, 2017.

Depreciation and amortization, which represents depreciation recorded on 28 of the Company's owned shuttle tankers, was $32.8 million.

Loss before income taxes from the date of incorporation on July 5, 2017 to December 31, 2017 was $6.9 million

Interest expense for the period from the date of incorporation on July 5, 2017 to December 31, 2017 was $19.1 million.

Net loss attributable to the Company's member was from the date of incorporation on July 5, 2017 to December 31, 2017 was $5.5 million. The Company was in a loss position for the period primarily due to the closing of the $250 million bond transaction occurring before the subsidiaries were acquired.

Balance Sheet

Total assets as of December 31, 2017 was $2,019 million, primarily based on the acquisition of the 35 shuttle tankers, including newbuildings, during the year.

As at December 31, 2017, the Company had total equity of $532.9 million, primarily based on paid-in-capital from Teekay Offshore Holdings L.L.C.

Cash Flow

From the date of incorporation on July 5, 2017 to December 31, 2017, the Company had net operating cash outflows of $97.6 million.

Net financing cash inflows from the date of incorporation on July 5, 2017 to December 31, 2017 was $239.0 million, primarily from the drawdown on the Company's $600 million revolving credit facility and the issuance of $250 million in bonds, less prepayments of debt.

Net investing cash outflows from the date of incorporation on July 5, 2017 to December 31, 2017 was $45.1 million, primarily from the advances on newbuilding contracts, offset by cash acquired of $89.1 million.

Financing

As at December 31, 2017, the Company had one revolving credit facility, which provided for borrowings of up to $575 million and was fully drawn. The amounts available under the revolving credit facility reduce by $100 million (2018), $100 million (2019), $100 million (2020), $100 million (2021) and $175 million (2023). The revolving credit facility is collateralized by first-priority mortgages granted on 18 of the Group's shuttle tankers, together with other related security.

The Group issued $250 million in senior unsecured bonds that mature in August 2022. The interest payment on these bonds are fixed at a rate of 7.125%.

One of the Company's 100% owned subsidiaries had one term loan outstanding for $191.9 million. The term loan consists of three-tranches that reduce over time with semi-annual payments, having varying maturities through 2023 and are collateralized with first-priority mortgages on the shuttle tankers.

One of the Company's 100% owned subsidiaries had a total of $174.2 million ten-year senior bonds that mature in December 2023. The bonds accrue interest at a fixed rate of 4.96%.

Three of the Company's 50%-owned subsidiaries had two term loans which in aggregate totaled $85.6 million. The term loans reduce over time with quarterly and semi-annual payments and have varying maturities through 2021.

Dividends

The Group has not paid any dividends since its incorporation on July 5, 2017. 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 from the date of incorporation on July 5, 2017 to December 31, 2017 for the Company was $7.2 million. This result is primarily driven by the interest expense on the revolving credit facility and $250 million bonds. Total assets and total member's equity at December 31, 2017 were $1,304.9 million and $477.1 million, respectively. From date of incorporation on July 5, 2017 to December 31, 2017, the Company generated cash flows of $16.4 million 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 the 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, through certain of its affiliated companies, 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 has, for instance, achieved certification under the standards reflected in the International Standards Organization's (ISO) 9001 for quality assurance, ISO 14001 for environmental management systems and Occupation Health and Safety Advisory Services 18001.

The passage of climate change control legislation or other regulatory initiatives that restrict emissions of greenhouse gases could have a significant financial and operation impact on the Company's business, which cannot be predicted with certainty at this time. Such regulatory measures could increase the Company's costs related to operating and maintain the Company's vessels and require us to install new emission controls, acquire allowance 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 Company's services.

Strategy and Outlook

The Group is expected to continue to generate strong cash flow during 2018. Teekay Shuttle Tanker's business strategy is primarily focused on implementing existing growth projects and extending contracts and pursuing 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 LLC

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. In September 2014, Ms. Robinson was appointed as the Secretary of general partner of Teekay Offshore, Teekay Offshore GP L.L.C. (the *General Partner*), and she also currently serves as an Associate General Counsel for Teekay Corporation. Ms. Robinson joined Teekay Corporation in 2014. 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 Partners, which indirectly owns the Company. Accordingly, the General Partner controls appointments to the board of the Company. The Company's sole director, Ms. Robinson, is also the corporate secretary of the General Partner. 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.

Bill Utt was appointed Chairman and director of Teekay Offshore GP L.L.C., the general partner of Teekay Offshore Partners L.P. on June 15, 2017. He has served as a director of Teekay Corporation since December 2015 and was appointed Chairman on June 15, 2017. Mr. Utt brings over 31 years of engineering and energy industry experience to the Teekay Board. 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 CEO of SUEZ Energy North America and President and CEO 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 Chairman on the Board of Directors at Cobalt International Energy and is member of the Board of Directors for Brand Energy & Infrastructure Services, a Clayton, Dubilier & Rice, LLC portfolio company.

Ian Craig was appointed Director of Teekay Offshore GP L.L.C on June 6, 2017. He has served in various executive positions in Shell, most recently in Nigeria where he was Executive VP for Sub Saharan Africa and in Russia where he was CEO 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 and management positions with other E&P 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 CEO of Teekay Corporation on February 1, 2017 and has served as a director of Teekay Offshore GP L.L.C. since 2011. He joined Teekay 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 this time, Mr. Hvid was involved in leading Teekay through its entry and growth in the LNG business. He held this 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'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 December 2015, as director of Teekay GP L.L.C. from 2011 to June 2015 and as President and CEO of Teekay Offshore Group Ltd, from May 2015 until January 31, 2017. Mr. Hvid has 28 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.

David L. Lemmon has served as a Director of Teekay Offshore GP L.L.C since December 2006. Mr. Lemmon also currently serves on the Board of Directors of Kirby Corporation, a position he has held since April 2006, and also serves on the Board of Deltic Timber Corporation, a position he has held since February 2007. Mr. Lemmon was President and Chief Executive Officer of Colonial Pipeline Company from 1997 until his retirement in March 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 30 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 has served as a Director of Teekay Offshore GP L.L.C. since December 2006. Mr. Peacock retired in February 2008 from Fednav Limited, a Canadian ocean-going, dry-bulk ship owning 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. He also serves as Chair of the McGill University Health Centre Foundation.

David Levenson is a Managing Partner at Brookfield and oversees Brookfield's opportunistic credit initiatives, including the Brookfield Credit Opportunity Fund and Brookfield Private Credit. Mr. Levenson joined Brookfield in 2004 and has extensive experience in mergers and acquisitions, corporate finance and restructurings. Most recently, he served as Chief Investment Officer in Brookfield's Infrastructure Group focused on growing its transportation platform. Prior to joining Brookfield, Mr. Levenson worked in investment banking and private equity. He received a Bachelor of Commerce degree from McGill University and an MBA from Harvard Business School. Mr. Levenson is also the holder of the Chartered Financial Analyst designation.

Jim 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 Accountant designation at Price WaterhouseCoopers in Toronto and holds a Bachelor of Arts in Commerce from the University of Toronto.

Walter 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.

Bradley Weismiller has been Chief Financial Officer, Europe for Brookfield Asset Management since 2014 and is responsible for Brookfield's financing strategy and execution across all European assets. In this capacity, he is responsible for ongoing counterparty relationship management and finance market interaction, as well as structuring and execution of specific real estate and project financings throughout various loan or bond markets where appropriate. Additionally, Mr. Weismiller oversees the strategy and execution of foreign exchange and interest rate risk management across Brookfield's businesses globally. Mr. Weismiller received his BBA in Finance from the Mason School of Business at the College of William and Mary in Virginia.

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 Teekay Corporation and 49% by Brookfield, and Brookfield has an option to acquire an additional 2% of the ownership interests in the General Partner from Teekay Corporation, subject to certain conditions. Brookfield also has certain approval rights with respect to actions of the General Partner and Teekay Offshore, which may impact Teekay Offshore's ability to take certain actions, on its own behalf and on behalf of the Company.

Pursuant to services agreements, subsidiaries of Teekay Offshore Partners L.P. and Teekay Corporation, provide various services to the Group, including substantially all of its managerial, operational and administrative services and other technical and advisory services. These services agreements are generally terminable by either party upon 30 days written notice; however, Teekay Corporation agreed with Brookfield under a Master Services Agreement dated September 25, 2017, that it would not terminate any such current services agreements until September 25, 2018 other than with respect to an event of default by the service recipient thereunder.

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 and Teekay Corporation providing services to the Company or its subsidiaries may face a conflict regarding the allocation of their time between the business of the Company 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 or other affiliates thereof, such officer and directors have fiduciary duties to Teekay Corporation or such other affiliates that may cause them to pursue business strategies that disproportionately benefit Teekay Corporation or such other affiliates or which otherwise are not in the best interests of the Company.

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 us adequate internal controls 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 30, 2018

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 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, 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 30, 2018

Edith Robinson

Sole Director

CONSOLIDATED FINANCIAL STATEMENTS

TEEKAY SHUTTLE TANKERS L.L.C.

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

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
TO TEEKAY SHUTTLE TANKERS L.L.C.**

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Independent Auditors' Report

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

Report on the Consolidated 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 at December 31, 2017, the consolidated statements of loss, other comprehensive loss, changes in total equity and cash flows for the period from the date of incorporation on July 5, 2017 to December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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, and for such internal control as management determines is necessary to enable the preparation 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 comply with ethical requirements and 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 our 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, we consider 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 present fairly, in all material respects, the consolidated financial position of Teekay Shuttle Tankers L.L.C. and its subsidiaries as at December 31, 2017, and its consolidated results of operations and cash flows for the period from the date of incorporation on July 5, 2017 to December 31, 2017, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 30, 2018

TEEKAY SHUTTLE TANKERS L.L.C.

CONSOLIDATED STATEMENT OF LOSS

(in thousands of U.S. dollars)

	Period from the date of incorporation July 5, 2017 to December 31, 2017
Revenues *(note 10)*	130,755
Voyage expenses	(21,822)
Vessel operating expenses *(note 10)*	(41,119)
Time-charter hire expense	(14,079)
Depreciation and amortization	(32,781)
General and administrative expenses *(note 10)*	(5,045)
Loss on sale of vessel *(note 13)*	(244)
Restructuring charge *(note 9)*	(211)
Income from vessel operations	**15,454**
Interest expense	(19,064)
Interest income	710
Foreign exchange loss *(note 11)*	(2,016)
Realized and unrealized losses on derivative instruments *(note 11)*	(903)
Other expense	(1,035)
Loss before income taxes	**(6,854)**
Income tax recovery *(note 12)*	1,904
Net loss	**(4,950)**
Less: Net income attributable to non-controlling interests	(542)
Net loss attributable to member of Teekay Shuttle Tankers L.L.C.	**(5,492)**

Related party transactions *(note 10)*

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

TEEKAY SHUTTLE TANKERS L.L.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(in thousands of U.S. dollars)

	Period from the date of incorporation July 5, 2017 to December 31, 2017
Net loss	**(5,492)**
Other comprehensive income:	
Other comprehensive income before reclassifications *(note 11)*	441
Other comprehensive income	**441**
Comprehensive loss	**(5,051)**
Non-controlling interests in comprehensive income	(542)
Member interest in comprehensive loss	**(5,593)**

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

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

	As at December 31, 2017
ASSETS	
Cash and cash equivalents	96,314
Accounts receivable	43,436
Current portion of derivative assets *(note 11)*	104
Net investment in direct financing leases - current *(note 8)*	813
Prepaid expenses	18,011
Due from affiliates - current *(note 10(e))*	159,272
Total current assets	**317,950**
Vessels and Equipment	
At cost, less accumulated depreciation of $717,773	1,439,839
Newbuilds in progress	62,960
Investment in direct finance leases *(note 8)*	5,008
Derivative assets *(note 11)*	705
Deferred income tax assets *(note 12)*	13,920
Other non-current assets	14,142
Due from affiliates - long Term	37,098
Goodwill *(note 5)*	127,113
Total assets	**2,018,735**
LIABILITIES AND MEMBERS' EQUITY	
Current	
Accounts payable	29,681
Accrued liabilities *(note 6)*	55,621
Current portion of deferred revenues	14,727
Current portion of derivative liabilities *(note 11)*	883
Current portion of long-term debt *(note 7)*	159,012
Due to affiliates - current *(note 10(e))*	49,029
Total current liabilities	**308,953**
Long-term debt *(note 7)*	1,064,809
Derivative liabilities *(note 11)*	67
Due to affiliates - long term *(note 10(e))*	109,669
Other long-term liabilities	2,353
Total liabilities	**1,485,851**
Commitments and contingencies *(note 15)*	
Equity	
Paid-in capital	483,879
Deficit	(5,492)
Accumulated other comprehensive income	441
Members' equity	**478,828**
Non-controlling interest	54,056
Total equity	532,884
Total liabilities and equity	2,018,735

Subsequent events (note 16)
The accompanying notes are an integral part of these consolidated financial statements.

Hamilton, Bermuda
April 30, 2018

Edith Robinson
Sole Director

TEEKAY SHUTTLE TANKERS L.L.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of U.S. dollars)

	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	(4,950)
Non-cash items:	
Unrealized loss on derivative instruments *(note 11)*	767
Depreciation and amortization	32,781
Loss on sale of vessel *(note 13)*	244
Deferred income tax recovery *(note 12)*	(1,998)
Unrealized foreign currency exchange loss and other	1,410
Change in non-cash working capital items related to operating activities (*note 14)*	(123,154)
Expenditures for dry docking	(2,714)
Net operating cash flow	**(97,614)**
FINANCING ACTIVITIES	
Proceeds from long-term debt *(note 7)*	893,862
Debt issuance costs *(note 7)*	(11,032)
Scheduled repayments of long-term debt *(note 7)*	(77,107)
Prepayments of long-term debt *(note 7)*	(369,722)
Cash distributions to non-controlling interests	(5,486)
Return of capital to member	(191,500)
Net financing cash flow	**239,015**
INVESTING ACTIVITIES	
Net payments for vessels and equipment, including advances on newbuilding contracts	(140,115)
Proceeds from sale of vessels and equipment	5,700
Direct financing lease payments received	272
Acquisition of subsidiaries, net of cash acquired of $89.1 million *(note 14)*	89,056
Net investing cash flow	**(45,087)**
Increase in cash and cash equivalents	96,314
Cash and cash equivalents, beginning of the period	—
Cash and cash equivalents, end of the period	**96,314**

Supplemental cash flow information *(note 14)*

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

TEEKAY SHUTTLE TANKERS L.L.C.

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

	Paid-in Capital	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	—	—	441	—	441
Balance as at December 31, 2017	**483,879**	**(5,492)**	**441**	**54,056**	**532,884**

The accompanying notes are an integral part of these 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 has nominal assets 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 for a total consideration of $765.9 million, net of debt and working capital. The subsidiaries consist of Teekay Offshore Operating LP, 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 LP has 23 100% owned subsidiaries and five 50% owned subsidiaries. Teekay Shuttle Tanker Finance L.L.C. has two 100% owned subsidiaries.

As of December 31, 2017, the Company controlled 36 shuttle tankers, increasing as the Company declared options with Samsung Heavy Industries Co. Ltd. to construct two additional Suezmax-sized DP2 shuttle tanker newbuildings in November 2017 and decreasing due to the sale of the *Navion Marita* shuttle tanker in November 2017.

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.

Acquisition accounting

The Company has early adopted ASU 2017-01 and has accounted for the acquisition of the subsidiaries from Teekay Offshore 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. The excess of Teekay Offshore's historical costs over the proceeds paid, if any, is accounted for as an equity contribution by Teekay Offshore.

Currency translation

The Company’s functional currency 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 date, 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 in other (expense) income in the accompanying consolidated statement of loss.

Operating revenues and expenses

Contracts of Affreightment and Voyage Charters

Revenues from contracts of affreightment and voyage charters are recognized on a proportionate performance method. Shuttle tanker voyages servicing contracts of affreightment with offshore oil fields commence with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. The Company uses a discharge-to-discharge basis in determining proportionate performance for all voyage charters, whereby it recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. The Company does not begin recognizing revenue until a charter has been agreed to by the customer and the Company, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Time Charters and Bareboat Charters

The Company recognizes revenues from time charter and bareboat charter contracts accounted for as operating leases on a straight line basis daily over the term of the charter as the applicable vessel operates under the charter. The Company does not recognize revenue during days that the vessel is off hire unless the contract provides for compensation while off hire.

The consolidated balance sheet reflects the deferred portion of revenues and expenses, which will be earned or expensed, respectively, 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.

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

Cash and cash equivalents

The Company classifies all highly liquid investments with an original maturity date of three months or less 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 off against the allowance when the Company believes that the receivable will not be recovered. There are no significant amounts recorded as allowance for doubtful accounts as at December 31, 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 considers its shuttle tankers to be 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.

Depreciation is calculated on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. Shuttle tankers are depreciated using an estimated useful life of 20 to 25 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 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 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.

Dry-docking activity for the period from the date of transfer of the Subsidiaries on October 3, 2017 through December 31, 2017 is summarized as follows:

	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$
ASSETS	
Balance at the date of transfer of the Subsidiaries on October 3, 2017	36,269
Cost incurred for dry docking	2,609
Dry-docking amortization	(4,803)
Balance at end of the period	**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 does not exist, the Company uses a discounted cash flow approach to estimate the fair value of an impaired vessel. In cases where an active second-hand sale and purchase market exists an appraised 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.

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 fees, commissions and legal expenses, are deferred and presented as a direct deduction from the carrying amount of that debt liability and amortized on an effective interest rate method over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense. If the debt issuance costs are not attributable to a specific debt liability or the debt issuance costs exceed the carrying value of the related debt liability, the debt issuance costs are deferred and presented as other non-current assets and amortized on an effective interest rate method over the term of the relevant loan.

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 may elect to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this step and use a fair value approach to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Company uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value.

Derivative instruments

All derivative instruments are initially recorded at fair value as either assets or liabilities in the accompanying consolidated balance sheet 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 for hedge accounting. Certain of the Company's interest rate swaps are designated and accounted for as hedges 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.

For derivative financial instruments designated and qualifying as 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 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 loss. If a cash flow hedge is terminated 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 impacts earnings, at which point they are transferred to the corresponding earnings line item in the consolidated statements of loss. If the hedged item is no longer possible of occurring, amounts recognized in equity are immediately transferred to the earnings line item in the consolidated statements of 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 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 recovery in the Company's consolidated statements of 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 will require 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 is effective for the Company January 1, 2018, and shall be applied, at the Company's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company will adopt ASU 2014-09 as a cumulative-effect adjustment as of this date. The Company has elected to apply ASC 2014-09 only to those contracts that are not completed as of January 1, 2018. The Company has identified the following differences based on the work performed to date:

- Voyage revenues from shuttle tankers servicing North Sea contracts of affreightment will be recognized over the load to discharge period, instead of the current method, which is over the load to theoretical return period. The cumulative-effect adjustment on January 1, 2018 is insignificant.

- 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 will be recognized on a smoothed basis over the term of the time-charter, instead of recognized when due under the contract. The cumulative-effect adjustment on January 1, 2018 is an increase to equity of $1.7 million.

- The Company expects that certain pre-operational costs it currently expenses as incurred will be deferred and amortized over the contract term of a customer contract that the costs relate to. The Company is in the process of determining which pre-operational costs this applies to and the cumulative impact to opening equity as at January 1, 2018.

- Operating costs for the Company's VOC plants will be presented as vessel operating expenses and the reimbursement of such expenses will be presented as revenue instead of such amounts being presented on a net basis. There will be no cumulative impact to opening equity as at January 1, 2018.

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. The Company is in the final stages of completing its assessment of ASU 2016-02, and is focused on developing process changes, determining the transitional impact and completing other items required for the adoption of ASI 2016-02.

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.

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (or *ASU 2016-15*), which, among other things, provides guidance on two acceptable approaches of classifying distributions received from equity method investees in the statements of cash flows. ASU 2016-15 is effective for the Company January 1, 2018, with a retrospective approach. The Company is currently evaluating the effect of adopting this new guidance.

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

In January 2017, the FASB issued Accounting Standards Update 2017-01, *Clarifying the Definition of a Business*, (or ASU 2017-01). ASU 2017-01 changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. ASU 2017-01 also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC 606. ASU 2017-01 is effective for annual reporting periods beginning after December 15, 2017, and for interim periods within those years. The Company adopted this new guidance on October 1, 2017.

In August 2017, the FASB issued Accounting Standards Update 2017-12, *Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities* (or *ASU 2017-12*). ASU 2017-12 eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also modifies the accounting for components excluded from the assessment of hedge effectiveness, eases documentation and assessment requirements and modifies certain disclosure requirements. ASU 2017-12 will be effective for the Company January 1, 2019. 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 36 shuttle tankers, of which five are shuttle tanker newbuildings, five are owned through 50%-owned subsidiaries and three are chartered-in. 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 period presented.

	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$
Shell	22,973
Statoil	20,838
BP	20,182
Petrobras	17,124
	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 - The fair value of the Company's cash and cash equivalents approximate their carrying amounts reported in the accompanying consolidated balance sheet.

Accounts receivable - Accounts receivable are recorded at the invoiced amount and do not bear interest.

Due to/from affiliates - The fair value of the Company's due to/from affiliates approximates their carrying amounts reported in the accompanying consolidated balance sheet.

Vessels and equipment - The estimated fair value of the Company's vessels and equipment are determined based on discounted cash flows or appraised values. In cases where an active second-hand sale and purchase market does not exist, the Company uses a discounted cash flow approach to estimate the fair value of an impaired vessel. In cases where an active second-hand sale and purchase market exists, 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.

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. Given the current volatility in the credit markets, it is reasonably possible that the amount recorded as a derivative liability could vary by a material amount in the near term.

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

Long-term debt - The fair values 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, 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, 2017	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability)	Fair Value Asset (Liability)
		$	$
Recurring:			
Cash and cash equivalents	Level 1	96,314	96,314
Derivative instruments *(note 11)*			
Interest rate swap agreements	Level 2	441	441
Foreign currency forward contracts	Level 2	(582)	(582)
Other:			
Long-term debt, including current portion - public *(note 6)*	Level 1	(246,687)	(252,138)
Long-term debt, including current portion - non-public *(note 6)*	Level 2	(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:

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

5. Goodwill

The carrying amount of goodwill for the Company was $127.1 million as at December 31, 2017. The Company conducted its annual goodwill impairment review as at October 1, 2017 using the qualitative approach and concluded that no impairment had occurred.

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

6. Accrued Liabilities

	December 31, 2017
	$
Voyage and vessel expenses	41,198
Audit, legal and other general expenses	119
Interest including interest rate swaps	11,694
Payroll and benefits	2,610
	55,621

7. Long-Term Debt

	December 31, 2017
	$
U.S. Dollar-denominated Revolving Credit Facility due through 2022	575,000
U.S. Dollar-denominated Term Loans due through 2021	85,574
U.S. Dollar-denominated Term Loan due through 2023	191,916
U.S. Dollar Non-Public Bonds due 2023	140,697
U.S. Dollar Public Bonds due through 2022	250,000
Total principal	1,243,187
Less debt issuance costs and other	(19,366)
Total debt	1,223,821
Less current portion	(159,012)
Long-term portion	1,064,809

As at December 31, 2017, the Company had one revolving credit facility, which, as at such date, provided for borrowings of up to $575 million, and was fully drawn. The total amount available under the revolving credit facilities reduces by $100 million (2018), $100 million (2019), $100 million (2020), $100 million (2021) and $175 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 of 1.20 times and a net debt to total capitalization ratio no greater than 75.0%. The revolving credit facilities are collateralized by first-priority mortgages granted on 18 of the Company's vessels, together with other related security.

As at December 31, 2017, three of the Company's 50%-owned subsidiaries had a total of two outstanding term loans, which in the aggregate totaled $85.6 million. In late-September 2017, two of the original term loan facilities were refinanced into a single facility and the maturity date was extended from 2018 to 2021. The term loans reduce over time with quarterly and semi-annual payments and have varying maturities through 2021. These term loans are collateralized by first-priority mortgages on the three shuttle tankers to which the loans relate, together with other related security. As at December 31, 2017, the Company had guaranteed $42.8 million of these term loans, which represents its 50% share of the outstanding term loans and the other owner had guaranteed the remaining $42.8 million of the term loans.

As at December 31, 2017, the Company had a term loan outstanding for three shuttle tankers including one newbuilding. The term loan consists of three tranches that reduce over time with semi-annual payments, have varying maturities through 2023 and are collateralized by first-priority mortgages on the vessels. As at December 31, 2017, the Company had guaranteed this term loan.

In September 2013 and November 2013, one of the subsidiaries issued, in a U.S. private placement, a total of $174.2 million of ten-year senior bonds that mature in December 2023, 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. The Company makes semi-annual repayments on the bonds and as at December 31, 2017, the carrying amount of the bonds was $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. The Company listed these bonds on the Oslo Stock Exchange in April 2018. As at December 31, 2017, 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 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 of 1.20 times and a net debt to total capitalization ratio no greater than 75.0%.

Interest payments on the revolving credit facility and the term loans are based on LIBOR plus margins. At December 31, 2017, the margins ranged between 2.40% and 3.50%. The weighted-average effective interest rate on the Company's variable rate long-term debt as at December 31, 2017 was 1.13%. This rate does not include the effect of the Company's interest rate swaps (see note 11).

The aggregate annual long-term debt principal repayments required to be made subsequent to December 31, 2017 are $159.6 million (2018), $143.0 million (2019), $141.9 million (2020), $162.0 million (2021), $447.5 million (2022), and $189.2 million (thereafter).

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 two term loans that require the Company to maintain vessel values to drawn principal balance ratios of a minimum of 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, 2017, these ratios were estimated to range from 140% to 189% and the Company was in compliance with the minimum ratios required. The vessel values used in these 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.

At December 31, 2017, the Company was in compliance with all covenants related to the credit facilities and consolidated long-term debt.

8. Leases

Charters-out

Time charters and bareboat charters of the Company's vessels to customers are accounted for as operating leases. The cost, accumulated depreciation and carrying amount of the vessels with charter-out contracts accounted for as operating leases at December 31, 2017 were $1.6 billion, $0.5 billion and $1.1 billion, respectively. As at December 31, 2017, minimum scheduled future revenues under these then in place time charters and bareboat charters to be received by the Company, were approximately $2.1 billion, comprised of $310.0 million (2018), $272.1 million (2019), $253.1 million (2020), $243.2 million (2021), $210.1 million (2022) and $851.0 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, 2017, revenue from unexercised option periods of contracts that existed on December 31, 2017, or variable or contingent revenues. In addition, minimum scheduled future revenues presented in this paragraph have been reduced by estimated off-hire time for periodic maintenance. 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, 2017, the minimum lease payments receivable under the direct financing lease approximated $7.6 million, including unearned income of $1.9 million. As at December 31, 2017, future scheduled payments under the direct financing leases to be received by the Company, were approximately $7.6 million, comprised of $1.4 million (2018), $1.4 million (2019), $1.4 million (2020), $1.4 million (2021), $1.4 million (2022) and $0.6 million (thereafter).

Charters-in

As at December 31, 2017, minimum commitments owing by the Company under vessel operating leases by which the Company charters-in vessels were approximately $34.2 million (2018) and $13.5 million (2019). 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.

9. Restructuring Charge

During the period from the date of incorporation on July 5, 2017 to December 31, 2017, the Company recognized a restructuring charge of $0.2 million, relating to the right sizing of onshore staff.

10. Related Party Transactions

a) On October 3, 2017, the Company entered into a share purchase agreement with Teekay Offshore, the Company's sole member, to acquire five wholly-owned subsidiaries and one 50%-owned subsidiary, which in aggregate controlled at that time 35 shuttle tankers, including five newbuildings and 3 in-chartered vessels. The Subsidiaries consist of Teekay Offshore Operating LP, Teekay Shuttle Tanker Finance LLC, Samba Spirit LLC, Lambada Spirit LLC, Navion Bergen LLC and Navion Gothenburg LLC. As of December 31, 2017, the Company controlled 36 shuttle tankers, including five newbuildings and 3 in-chartered vessels.

b) Prior to the acquisition of the Subsidiaries on October 3, 2017, the subsidiaries entered into 15-year contracts, plus extension options, with a group of oil companies to provide shuttle tanker services for oil production on the East Coast of Canada and contracts to construct three Suezmax DP2 shuttle tanker newbuildings. These vessels will replace the existing vessels servicing the East Coast of Canada. Two of the three newbuildings delivered in October and November 2017, respectively and the third vessel delivered in March 2018 (see note 15a). The Company has received project management and engineering services from certain subsidiaries of Teekay Corporation, an affiliate company, relating to the construction of these shuttle tankers. The costs for these services are capitalized and included as part of advances on newbuilding contracts and conversion costs and are reclassified to vessels and equipment upon delivery of the vessels. Project management and engineering costs paid to Teekay Corporation subsidiaries from the period of incorporation on July 5, 2017 to December 31, 2017 amounted to $0.4 million.

c) During the 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.

d) Teekay Corporation and its wholly-owned subsidiaries provided substantially all of the Company’s commercial, technical, crew training, strategic, business development and administrative service needs. Such related party transactions were as follows for the periods indicated:

	Period from the date of incorporation on July 5, 2017 to December 31, 2017
Revenues (1)	11,858
Vessel operating expenses (2)	5,114
General and administrative (3)	5,045

(1) Includes revenues from time-charter-out contracts with subsidiaries or affiliates of Teekay Corporation.

(2) Includes ship management and crew training services provided by Teekay Corporation.

(3) Includes commercial, technical, strategic, business development and administrative management fees charged by Teekay Corporation

e) At December 31, 2017, current and long-term due from affiliates totaled $196.4 million and current and long-term due to affiliates totaled $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 in the normal course of operations or from financings.

11. Derivative Instruments

The Company uses derivatives 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 period from the date of incorporation on July 5, 2017 to December 31, 2017, as cash flow hedges.

As at December 31, 2017, the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency	Fair Value / Carrying Amount of Asset/(Liability)	Average Forward Rate(1)	Expected Maturity	
				2018	2019
	(in thousands)	(in thousands of U.S. Dollars)		(in thousands of U.S. Dollars)	
Norwegian Kroner	315,000	(582)	8.02	32,406	6,849

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

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

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. All of these interest rate swaps are designated and accounted for as hedges in the consolidated financial statements.

As at December 31, 2017, the Company and its consolidated subsidiaries were committed to the following interest rate swap agreements, which are accounted as hedges in the consolidated financial statements:

	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 swaps	LIBOR	100,000	439	4.8	2.1%

(1) Excludes the margin the Company pays on its variable-rate debt, which at December 31, 2017, ranged from 2.25% to 3.50%.

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

Year Ended December 31, 2017		
Effective Portion Recognized in AOCI(1)	Effective Portion Reclassified from AOCI(2)	Ineffective Portion(3)
441	—	—

(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 $	Other non-current assets $	Accrued liabilities $	Current portion of derivative liabilities $	Derivative liabilities $
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 (loss) gain of 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) gain on derivative instruments in the consolidated statement of loss. The effect of the (loss) gain on these derivatives in the consolidated statement of loss for the period from the date of incorporation on July 5, 2017 to December 31, 2017 are as follows:

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

	Period from the date of incorporation on July 5, 2017 to December 31, 2017
	$
Realized loss on derivative instruments	
Interest rate swap	(132)
Foreign currency forward contracts	(4)
	(136)
Unrealized loss on derivative instruments	
Interest rate swap	—
Foreign currency forward contracts	(767)
	(767)
Total realized and unrealized loss on derivative instruments	**(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, the Company only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

12. Income Taxes

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

	December 31, 2017 $
Deferred tax assets:	
Tax losses carried forward[(1)]	46,778
Other	(699)
Total deferred tax assets	46,079
Deferred tax liabilities	
Vessels and equipment	10,398
Long-term debt	365
Other	—
Total deferred tax liabilities	10,763
Net deferred tax assets	35,316
Valuation allowance	(21,396)
Net deferred tax assets	13,920
Disclosed in:	
Deferred tax asset	13,920
Other long-term liabilities	—
Net deferred tax assets	13,920

(1) As at December 31, 2017, the income tax losses carried forward of $194.4 million are available to offset future taxable income in the applicable jurisdictions, of which $186.4 million can be carried forward indefinitely, $4.2 million will expire in 2026, $1.8 million will expire in 2034 and $2.0 million will expire in 2037.

(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:

	Period from the date of incorporation on July 5, 2017 to December 31, 2017 $
Current	(94)
Deferred	1,998
Income tax recovery	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, 2017 $
Net loss before taxes	(6,854)
Net income not subject to taxes	418
Net loss subject to taxes	(7,272)
At applicable statutory tax rates	(1,785)
Permanent differences	(610)
Adjustments related to currency differences	85
Valuation allowance	406
Tax recovery related to current year	(1,904)

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

13. Loss on Sale of Vessel

During the period from the date of incorporation on July 5, 2017 to December 31, 2017, the *Navion Marita* was sold for gross proceeds of $5.7 million resulting in a loss on sale of approximately $0.2 million.

14. Supplemental Cash Flow Information

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

	Period from the date of incorporation on July 5, 2017 to December 31, 2017 $
Accounts receivable	(21,857)
Prepaid expenses and other	(3,073)
Accounts payable	(1,808)
Accrued liabilities	14,873
Deferred revenue	(2,730)
Advances to affiliates	(108,559)
	(123,154)

b) Cash interest paid during the period from the date of incorporation on July 5, 2017 to December 31, 2017 totaled $7.9 million.

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 statement 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 statement of cash flows.

15. Commitments and Contingencies

a) In June 2015, one of the Subsidiaries entered into 15-year contracts, plus extension options, with a group of oil companies to provide shuttle tanker services for oil production on the East Coast of Canada. These contracts were initially being serviced by three third party-owned shuttle tankers operating on the East Coast of Canada, which were chartered-in to the Company. One of these vessels was replaced by one of the Company's existing shuttle tankers, the *Navion Hispania*, during the third quarter of 2015. The Company entered into contracts to construct three Suezmax DP2 shuttle tanker newbuildings for an aggregate fully built-up cost of approximately $370 million. These vessels are replacing the existing vessels servicing the East Coast of Canada. Two of the three vessels, the *Beothuk Spirit* and the *Norse Spirit*, were delivered to the Company in October 2017 and November 2017, respectively, and the remaining vessel was delivered in March-2018. As at December 31, 2017, payments made towards these commitments totaled $277.0 million and the remaining payments required to be made under these newbuilding contracts were $93.2 million (2018). The Company secured long-term debt financing of $250 million to finance the newbuilding installments, of which $58.1 million was undrawn as at December 31, 2017.

b) In 2017, one of the Subsidiaries entered into shipbuilding contracts with Samsung Heavy Industries Co., Ltd. to construct four Suezmax DP2 shuttle tanker newbuildings, for an aggregate fully built-up cost of approximately $587 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 Statoil, which will add vessel capacity to service the Company's CoA portfolio in the North Sea, and two to operate directly within the North Sea CoA fleet. As at December 31, 2017, payments made towards these commitments were $24.0 million and the remaining payments required to be made are estimated to be $58.1 million (2018), $225.4 million (2019) and $279.8 million (2020). The Company expects to secure long-term debt financing related to these shuttle tanker newbuildings.

16. Subsequent Events

Subsequent events have been evaluated through April 30, 2018, the date the financial statements were available for issuance.

a) Subsequent to December 31, 2017, the Company has considered challenges associated with shuttle tankers that have approached 20 years of age in recent years and has reassessed the useful life of the tanker component to 20 years. This change in estimate, commencing January 1, 2018, impacts 21 vessels in the Company's shuttle tanker fleet. The effect of this change in estimate is expected to amount to an annual increase in depreciation and amortization expense and an annual decrease in net income of approximately $17.2 million on a pro-forma basis based on the fleet owned at December 31, 2017.

b) In March 2018, the Company 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.

c) Subsequent to year end, the carrying value of the *Nordic Spirit* and *Stena Spirit* shuttle tankers were written down to their estimated fair values, using appraised values. As notice of redelivery was received by the Company in April 2018, the vessels are expected to redeliver from their charterer after completing their bareboat charter contracts in June 2018 and the Company has adjusted its expectations for the future opportunities for the vessels. The write-down related to these vessels is $28.5 million of which $14.2 million is included in a 50%-owned subsidiary of the Company.

NON-CONSOLIDATED FINANCIAL STATEMENTS

TEEKAY SHUTTLE TANKERS L.L.C.

For 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 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 at December 31, 2017, the separate statements of loss and other comprehensive loss, changes in total equity and cash flows for the period from the date of incorporation on July 5, 2017 to December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the 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 is also responsible for such internal control as management determines is necessary to enable the preparation of separate 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Entity's preparation and fair presentation of the separate 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate 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 separate financial statements present fairly, in all material respects, the non-consolidated financial position of Teekay Shuttle Tankers L.L.C. as at December 31, 2017, and its non-consolidated results of operations and its cash flows for the period from the date of incorporation on July 5, 2017 to December 31, 2017, 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 30, 2018

TEEKAY SHUTTLE TANKERS L.L.C.

NON-CONSOLIDATED STATEMENT OF LOSS

(in thousands of U.S. dollars)

	Period from the date of incorporation on July 5, 2017 to December 31, 2017
Dividend income	7,700
General and administrative expenses *(note 4)*	(505)
Operating income	**7,195**
Interest expense	(14,771)
Interest income	523
Foreign exchange loss	(4)
Realized losses on derivative instruments *(note 7)*	(132)
Net loss attributable to member of Teekay Shuttle Tankers L.L.C.	**(7,189)**

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

TEEKAY SHUTTLE TANKERS L.L.C.

NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(in thousands of U.S. dollars)

	Period from the date of incorporation on July 5, 2017 to December 31, 2017
Net loss	**(7,189)**
Other comprehensive income:	
Unrealized gain on qualifying cash flow hedging instrument *(note 7)*	441
Other comprehensive income:	**441**
Comprehensive loss	**(6,748)**

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

TEEKAY SHUTTLE TANKERS L.L.C.
NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of U.S. dollars)

	As at December 31, 2017
ASSETS	
Cash and cash equivalents	16,385
Due from subsidiaries - current *(note 4)*	521,223
Due from affiliates - current *(note 4)*	696
Total current assets	**538,304**
Investment in subsidiaries *(note 4)*	765,932
Derivative assets *(note 7)*	677
Total assets	**1,304,913**
LIABILITIES AND MEMBER'S EQUITY	
Current	
Accrued liabilities *(note 5)*	6,878
Current portion of derivative liabilities *(note 7)*	236
Due to subsidiaries - current *(note 4)*	4,000
Due to ultimate parent company - current *(note 4)*	1,824
Current Portion of long-term debt *(note 6)*	99,745
Total current liabilities	**112,683**
Long-term debt *(note 6)*	715,100
Total liabilities	**827,783**
Member's Equity	
Contributions	483,878
Deficit	(7,189)
Accumulated other comprehensive income	441
Total member's equity	**477,130**
Total liabilities and member's equity	**1,304,913**

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

Subsequent events *(note 11)*

Hamilton, Bermuda
April 30, 2018

Edith Robinson
Sole Director

TEEKAY SHUTTLE TANKERS L.L.C.

NON-CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of U.S. dollars)

	Period from date of incorporation on July 5, 2017 to December 31, 2017
Cash in bank provided by (used for)	
OPERATING ACTIVITIES	
Net loss	(7,189)
Non-cash items:	
Amortization of debt issuance costs	878
Change in non-cash working capital items related to operating activities *(note 8(a))*	(76,065)
Net operating cash flow	(82,376)
FINANCING ACTIVITIES	
Proceeds from long-term debt *(note 6)*	759,446
Scheduled repayments of long-term debt *(note 6)*	(25,000)
Debt issuance costs	(11,033)
Return of capital to member	(191,500)
Net financing cash flow	531,913
INVESTING ACTIVITIES	
Net investment in cost-accounted subsidiaries	(433,152)
Net investing cash flow	(433,152)
Increase in cash in bank	16,385
Cash in bank, beginning of the period	—
Cash in bank, end of the period	**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)

	Deficit	**Accumulated Other Comprehensive Income**	**Contributed Surplus**	**Total**
	$	**$**	**$**	**$**
Balance as at July 5, 2017	**—**	**—**	**—**	**—**
Net loss	(7,189)	—	—	(7,189)
Contributions from member *(note 8c)*	—	—	765,932	765,932
Return of capital *(note 8b)*	—	—	(282,054)	(282,054)
Other comprehensive income	—	441	—	441
Balance as at December 31, 2017	**(7,189)**	**441**	**483,878**	**477,130**

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 consist 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. has 23 100% owned subsidiaries and five 50% owned subsidiaries. Teekay Shuttle Tanker Finance L.L.C. has 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. The preparation of non-consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements. Actual results could differ from those estimates.

These financial statements were authorized for issue by the Company's Board of Directors on April 30, 2018. 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.

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.

Currency translation

The Company's functional currency 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 date, 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 in other (expense) income in the accompanying non-consolidated statements of income.

Cash in bank

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

Debt issuance costs

Debt issuance costs related to a recognized debt liability, including fees, commissions and legal expenses, are deferred and presented as a direct deduction from the carrying amount of that debt liability and amortized on an effective interest rate method over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense. If the debt issuance costs are not attributable to a specific debt liability or the debt issuance costs exceed the carrying value of the related debt liability, the debt issuance costs are deferred and presented as other non-current assets and amortized on an effective interest rate method over the term of the relevant loan.

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.

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. The Company applies hedge accounting to its derivative instrument.

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.

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 statement 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 statement of loss. If cash flow hedge is terminated 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 statement of loss. If the hedged item is no longer possible of occurring, the amounts recognized in equity are immediately transferred to the earnings line item in the non-consolidated statement of loss.

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 Not Yet Adopted

The financial statements have been prepared based on standards, amendments and interpretations effective for the year ending December 31, 2017. IASB has issued the following standards, amendments to the following standards that are not yet effective which may have an impact on the financial statements.

IFRS 9 *Financial Instruments* (effective date January 1, 2018) will replace IFRS 39 *Financial Instruments: Recognition and Measurement*. The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company performed an assessment on all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position. Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on the accounting for due from subsidiaries that are managed on a fair value basis.

IFRS 15 *Contracts with Customers* (effective date January 1, 2018) and IFRS 16 *Leases* (effective date January 1, 2019) are 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 in bank - The fair value of the Company’s cash in bank approximates its carrying amount 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 agreement 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 agreements and foreign currency forward contracts require no collateral from these institutions. Given the current volatility in the credit markets, it is reasonably possible that the amount recorded as a derivative liability could vary by a material amount in the near term.

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

Long-term debt - The fair values 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, 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, 2017		
	Fair Value Hierarchy Level	**Carrying Amount Asset (Liability)**	**Fair Value Asset (Liability)**
		$	**$**
Recurring:			
Cash in bank	Level 1	16,385	16,385
Interest rate swap agreement *(note 7)*	Level 2	441	441
Other:			
Long-term debt, including current portion - public *(note 6)*	Level 1	(246,597)	(252,136)
Long-term debt, including current portion - non-public *(note 6)*	Level 2	(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 Companies

As at December 31, 2017, the Company has the following subsidiaries.

Company Name	Jurisdiction of Incorporation	Proportion of Ownership Interest	Principal Activity	December 31, 2017 $
Teekay Shuttle Tanker Finance L.L.C.	Republic of The Marshall Islands	100.00%	No activity	74,459
Navion Bergen L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Navion Bergen*	32,912
Lambada Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Lambada Spirit*	23,082
Samba Spirit L.L.C.	Republic of The Marshall Islands	100.00%	Owner of *Samba Spirit*	23,056
Navion Gothenburg L.L.C.	Republic of The Marshall Islands	50.00%	Owner of *Navion Gothenburg*	15,878
Teekay Offshore Operating LP	Republic of The Marshall Islands	99.09%	Holding company	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*	—
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%	Owner of *Stena Spirit*	—
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 *10 shuttle tank*ers	—
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%	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	—
Teekay SHI Hull No. 2241 AS	Norway	100.00%	Owner of Hull No. 2241	—
Teekay SHI Hull No. 2242 AS	Norway	100.00%	Owner of Hull No. 2242	—
Teekay SHI Hull No. 2256 AS	Norway	100.00%	Owner of Hull No. 2256	—
Teekay SHI Hull No. 2257 AS	Norway	100.00%	Owner of Hull No. 2257	—
Teekay Grand Banks Shipping AS	Norway	100.00%	Owner of *Navion Hispania*, *Beothuk Spirit*, *Norse Spirit* and *Dorset Spirit*	—
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	—
				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.

Transactions with related parties

Teekay Corporation, an affiliated company, and its wholly-owned subsidiaries provide substantially all of the Company's administrative service needs. The Company's related party transactions included $438,000 in General & Administrative expenses for the period from the date of incorporation on July 5, 2017 to December 31, 2017.

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

Balance with subsidiaries

The Company provides financing to its subsidiaries through short-term loans. The amounts are with-out interest and have no fixed repayment terms. The fair value of the Company's due to / from subsidiaries approximates their carrying amounts reported in the accompanying non-consolidated statement of financial position.

	Balances with subsidiaries as at December 31, 2017	
Company name	**Short-term receivables**	**Short-term payables**
Amundsen Spirit L.L.C.	60,948	—
Lambada Spirit L.L.C.	75,037	—
Nansen Spirit L.L.C.	63,701	—
Peary Spirit L.L.C.	48,388	—
Samba Spirit L.L.C.	75,032	—
Scott Spirit L.L.C.	46,664	—
Teekay (Atlantic) Chartering U.L.C.	11,343	—
Teekay Grand Banks Shipping AS	47,500	—
Teekay Navion Offshore Loading Pte. Ltd.	3,000	—
Teekay Nordic Holdings Inc.	—	1,000
Teekay Norway AS	—	3,000
Teekay Offshore Operating L.P.	77,100	—
Teekay SHI Hull No. 2241 AS	6,005	—
Teekay SHI Hull No. 2242 AS	6,005	—
Teekay Shuttle Tanker Finance L.L.C.	500	—
Total	521,223	4,000

Balance with ultimate parent company and affiliates

The Company provides, and receives, advances from its affiliates and ultimate parent company through short-term loans. The amounts are with-out interest and have no fixed repayment terms. The fair value of the Company's due from / to affiliates approximates their carrying amounts reported in the accompanying non-consolidated statement of financial position.

	Balances with ultimate parent company and affiliate as at December 31, 2017	
Company name	**Short-term receivables**	**Short-term payables**
Teekay Offshore Chartering L.L.C	696	—
Teekay Offshore Partners L.P.	—	1,824
Total	696	1,824

5. Accrued Liabilities

	December 31, 2017
	$
Audit and other legal expenses	50
Interest including interest rate swaps	6,828
	6,878

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

6. Long-Term Debt

	December 31, 2017
	$
U.S. Dollar-denominated Revolving Credit Facility due through 2022	575,000
U.S. Dollar Bonds due through 2022	250,000
Total principal	825,000
Less debt issuance costs and other	(10,155)
Total debt	814,845
Less current portion	(99,745)
Long-term portion	**715,100**

As at December 31, 2017, the Company had one revolving credit facility, which, as at such date, provided for borrowings of up to $575 million, and was fully drawn. The total amount available under the revolving credit facility reduces by $100 million (2018), $100 million (2019), $100 million (2020), $100 million (2021) and $175 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 consolidated liquidity (cash in bank, 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 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 18 of the subsidiaries' vessels, together with other related security. The carrying amount of the vessels pledged as security is $841.4 million as of December 31, 2017.

In August 2017, the Company issued $250.0 million in senior unsecured bonds in the Norwegian bond market that mature in August 2022. The Company listed these bonds on the Oslo Stock Exchange in April 2018. As at December 31, 2017, the carrying amount of the bonds was $250.0 million, excluding issuance costs. The interest payments on the bonds are fixed at a rate of 7.125%. The bonds are guaranteed by the Company and contain covenants that require the Company to maintain a minimum consolidated liquidity (cash in bank, 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 of 1.20 times and a net debt to total capitalization ratio no greater than 75.0%.

The following table provides a reconciliation of liabilities to cash flows arising from financing activities:

	Liabilities		
	Long-term portion of debt	Current portion of 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 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 as of December 31, 2017	**715,100**	**99,745**	**814,845**

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

The aggregate annual long-term debt principal repayments and interest payments required to be made subsequent to December 31, 2017 are $142.5 million (2018), $137.8 million (2019), $133.1 million (2020), $128.4 million (2021), and $440.2 million (2022).

Obligations under the Company's credit facilities are secured by certain of the subsidiaries' vessels, and if the Company is unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets.

As at December 31, 2017, the Company was in compliance with all the covenants related to the revolving credit facility and bonds.

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

7. Derivative Instruments

The Company uses derivatives 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. All of these interest rate swaps are designated and accounted for as hedges in the consolidated financial statements.

As at December 31, 2017, the Company was committed to the following interest rate swap agreements:

	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	LIBOR	100,000	439	4.8	2.1%

Tabular disclosure

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

	Non-current portion of derivative assets $	Accrued liabilities $	Current portion of derivative liabilities $
As at December 31, 2017			
Interest rate swap	677	(2)	(236)
	677	(2)	(236)

The table below presents the effective and ineffective portion of the gain (loss) on the interest rate swap agreement designated as a cash flow hedge.

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, the Company only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

For the period from the date of incorporation on July 5, 2017 to December 31, 2017, the following table presents the effective and ineffective portion of the gain on interest rate swap agreements designated and qualifying as cash flow hedges.

Effective Portion Recognized in AOCI[1]	Effective Portion Reclassified from AOCI[2]	Ineffective Portion[3]
441	—	—

(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.

(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 period ended July 5, 2017 through December 31, 2017 are as follows:

	December 31, 2017 $
Accrued liabilities	6,878
Due to (from) affiliates	(82,943)
	(76,065)

b) 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 statement of cash flows.

c) 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 statement of cash flows.

d) Cash interest paid during period from the date of incorporation on July 5, 2017 to December 31, 2017 was $6.7 million.

9. Capital Management

The Company's capital is composed of member's equity, long-term debt and cash and cash in bank. 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, 2017, 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 in bank. The Company's cash in bank is only deposited with internationally recognized financial institutions with a high credit rating, therefore the assessed credit risk is minimal.

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 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 entered into one interest rate swap to reduce its exposure to market risk from changes in interest rates during the period ended December 31, 2017.

Based on the given capital structure as of December 31, 2017, it is estimated that a 1% change in LIBOR would impact the Company's net loss and comprehensive loss by $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 utilized U.S. Dollars. Consequently, virtually all of the Company's revenues and the expenses are in U.S. Dollars. As at December 31, 2017 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. The Company's primary sources of liquidity are cash in bank and cash flows provided by the Company's operations. 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. With the exception of its long-term debt as at December 31, 2017, all of the Company's financial liabilities as December 31, 2017 mature within the next twelve months.

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

		Contractual cash flows(2)					
December 31, 2017	**Carrying amount**	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**
Revolving credit facility(1)	575,000	649,508	124,640	119,947	115,254	110,560	179,107
U.S. Dollar Bonds(1)	250,000	332,379	17,813	17,813	17,813	17,813	261,127
Accrued liabilities	6,878	6,878	6,878	—	—	—	—
Total	831,878	988,765	149,331	137,760	133,067	128,373	440,234

(1) All amounts are inclusive of projected interest payments based on the LIBOR curve at December 31, 2017.
(2) The presentation is exclusive of potential cash flows on derivative instruments as such instruments were in an asset position at the balance sheet date.

11. Subsequent Events

Subsequent events have been evaluated through April 30, 2018, the date the financial statements were available for issuance. No items were noted.