UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

TEEKAY SHUTTLE TANKERS L.L.C.

Interim report for the three months ended March 31, 2018.

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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 $765.9 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.

Management Discussion and Analysis

As at March 31, 2018, our shuttle tanker fleet consisted of 31 vessels that operate under fixed-rate CoAs, time charters and bareboat charters and four shuttle tanker newbuildings. Of these 35 shuttle tankers, six are owned through 50%-owned subsidiaries and two were chartered-in. The remaining vessels are owned 100% by us. All of our operating shuttle tankers, with the exception of two shuttle tankers that are currently trading as conventional tankers, provide transportation services to energy companies in the North Sea, Brazil and the East Coast of Canada. Our shuttle tankers occasionally service the conventional spot tanker market. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Euro and Brazilian Real may result in significant decreases or increases, respectively, in our vessel operating expenses.

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.

Net Operating Results

Loss from vessel operations. Loss from vessel operations for the three months ended March 31, 2018 reflect the commencement of the charter contracts in the East Coast of Canada for the *Beothuk Spirit* and the *Norse Spirit* and associated redelivery of the in-chartered shuttle tanker *Jasmine Knutsen*, non-recurring repair and maintenance expenses for the *Nordic Rio* and *Nordic Brasilia* to prepare these vessels for trade in the conventional tanker market and the drydocking of one vessel.

Write-down on vessels. Write-down of vessels was $28.5 million for the three months ended March 31, 2018, which consisted of a $14.2 million write-down of the *Nordic Spirit* and a $14.3 million write-down of the *Stena Spirit* as a result of their charter contract expiration in 2018 and a change in the operating plans for these vessels.

Other Operating Results

Income Tax Expense. Income tax expense was $12.0 million for the three months ended March 31, 2018, primarily due to an increase in our valuation allowance, during the three months ended March 31, 2018, on certain Norwegian tax assets, due to changes in the assumptions for future taxable income.

Financing update

In March 2018, we refinanced our existing $250.0 million debt facility secured by the three East Coast Canada shuttle tankers with a new five-year $265.8 million debt facility.

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

	Three Months Ended March 31, 2018
Revenues *(notes 2, 4 and 6)*	141,987
Voyage expenses *(note 2)*	(26,886)
Vessel operating expenses *(notes 2 and 6)*	(37,837)
Time-charter hire expenses	(8,569)
Depreciation and amortization *(notes 1 and 2)*	(41,062)
General and administrative *(note 6)*	(5,040)
Write-down of vessels *(note 10)*	(28,528)
Loss from vessel operations	**(5,935)**
Interest expense *(notes 5 and 7)*	(17,680)
Interest income	211
Realized and unrealized gain (loss) on derivative instruments *(note 7)*	1,509
Foreign currency exchange loss *(note 7)*	(1,505)
Other - net	(65)
Loss before income tax expense	**(23,465)**
Income tax expense*(note 8)*	(12,011)
Net loss	**(35,476)**
Non-controlling interests in net loss	7,935
Net loss attributable to member of Teekay Shuttle Tankers L.L.C.	**(27,541)**

Related party transactions *(note 6)*

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

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

	Three Months Ended March 31, 2018
Net loss	**(35,476)**
Other comprehensive income:	
Other comprehensive income before reclassifications	
Unrealized gain on qualifying cash flow hedging instruments *(note 8)*	1,781
Accounts reclassified from accumulated other comprehensive income (loss)	
To interest expense:	
Realized loss on qualifying cash flow hedging instruments	100
Other comprehensive income	**1,881**
Comprehensive loss	**(33,595)**
Non-controlling interests in comprehensive loss	7,935
Member's interest in comprehensive loss	**(25,660)**

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

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

	As at March 31, 2018	As at December 31, 2017
ASSETS		
Cash and cash equivalents	93,210	96,314
Accounts receivable	16,949	43,436
Current portion of derivative assets *(note 7)*	986	104
Net investment in direct financing lease - current *(note 3b)*	834	813
Prepaid expenses	19,449	18,011
Due from affiliates *(note 6)*	155,163	159,272
Other current assets *(notes 3b and 8)*	2,017	—
Total current assets	**288,608**	**317,950**
Vessels and equipment		
At cost, less accumulated depreciation of $680,194 (December 31, 2017 - $716,254)	1,495,404	1,439,839
Advances on newbuilding contracts *(note 9)*	16,851	62,960
Net investment in direct finance lease *(note 3b)*	4,958	5,008
Derivative assets *(note 7)*	2,198	705
Deferred tax asset	1,977	13,920
Due from affiliates *(note 6)*	42,100	37,098
Other non-current assets	30,515	14,142
Goodwill	127,113	127,113
Total assets	**2,009,724**	**2,018,735**
LIABILITIES AND EQUITY		
Current		
Accounts payable	4,898	29,681
Accrued liabilities *(note 7)*	30,690	55,621
Deferred revenues	3,953	14,727
Due to affiliates *(note 6)*	61,927	49,029
Current portion of derivative instruments *(note 7)*	15	883
Current portion of long-term debt *(note 5)*	156,148	159,012
Total current liabilities	**257,631**	**308,953**
Long-term debt *(note 5)*	1,104,356	1,064,809
Derivative instruments *(note 7)*	15	67
Due to affiliates *(note 6)*	114,825	109,669
Other long-term liabilities	20,813	2,353
Total liabilities	**1,497,640**	**1,485,851**
Commitments and contingencies *(note 9)*		
Equity		
Paid-in capital	483,879	483,879
Deficit	(20,238)	(5,492)
Accumulated other comprehensive income	2,322	441
Member's equity	**465,963**	478,828
Non-controlling interest	46,121	54,056
Total equity	**512,084**	532,884
Total liabilities and total equity	**2,009,724**	**2,018,735**

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

Hamilton, Bermuda
May 30, 2018

Edie Robinson
Sole Director

TEEKAY SHUTTLE TANKERS L.L.C.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of U.S. dollars)

	Three Months Ended March 31, 2018
Cash, cash equivalents and restricted cash provided by (used for)	
OPERATING ACTIVITIES	
Net loss	(35,476)
Non-cash items:	
Unrealized gain on derivative instruments *(note 7)*	(1,413)
Depreciation and amortization	41,062
Write-down of vessels *(note 10)*	28,528
Deferred income tax expense (*note 8)*	11,943
Unrealized foreign currency exchange loss and other	(1,487)
Change in non-cash working capital items related to operating activities	10,607
Expenditures for dry docking	(4,375)
Net operating cash flow	**49,389**
FINANCING ACTIVITIES	
Proceeds from long-term debt *(note 5)*	73,884
Scheduled repayments of long-term debt *(note 5)*	(33,287)
Debt issuance costs *(note 5)*	(5,776)
Net financing cash flow	**34,821**
INVESTING ACTIVITIES	
Net payments for vessels and equipment, including advances on newbuilding contracts	(87,342)
Direct financing lease payments received	28
Net investing cash flow	**(87,314)**
Decrease in cash, cash equivalents and restricted cash	(3,104)
Cash, cash equivalents and restricted cash, beginning of the period	96,314
Cash, cash equivalents and restricted cash, end of the period	**93,210**

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

TEEKAY SHUTTLE TANKERS L.L.C.

UNAUDITED 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 December 31, 2017	**483,879**	**(5,492)**	**441**	**54,056**	**532,884**
Net loss	—	(27,541)	—	(7,935)	(35,476)
Other comprehensive income	—	—	1,881	—	1,881
Change in accounting policy *(note 2)*	—	12,795	—	—	12,795
Balance as at March 31, 2018	**483,879**	**(20,238)**	**2,322**	**46,121**	**512,084**

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

1. Basis of Presentation

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

The unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). The preparation of consolidated financial statements in conformity with GAAP 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.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the period from the date of incorporation on July 5, 2017 to December 31, 2017, which are included in the Company's Annual Report, filed with the Oslo Bors on April 30, 2018. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments, which are solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, changes in total equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. 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 the Partnership's vessels and the offshore oil platforms. Downtime for repairs and maintenance generally reduces oil production and, thus, transportation requirements. Intercompany balances and transactions have been eliminated upon consolidation.

The Company considers its shuttle tankers to comprise of two components: i) a conventional tanker (or the "tanker component") and ii) specialized shuttle equipment (or the "shuttle component"). The Company differentiates these two components on the principle that a shuttle tanker can also operate as a conventional tanker without the use of the shuttle component. The economics of this alternate use depend on the supply and demand fundamentals in the two segments. Historically, the Company has assessed the useful life of the tanker component as being 25 years and the shuttle component as being 20 years. During the three months ended March 31, 2018, 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 was an increase in depreciation and amortization expense and an increase in net loss of $4.3 million for the three months ended March 31, 2018.

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 has adopted 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 identified the following differences:

- Revenue from time-charter contracts with fixed annual increases in the daily hire rate during the firm period of the charter to compensate for expected inflationary cost increases will be recognized on a smoothed basis over the term of the time-charter, instead of recognized when due under the contract. These changes had the impact of increasing revenue by $0.3 million for the three months ended March 31, 2018, as well as increasing other assets by $1.3 million, and increasing equity by $1.3 million as at March 31, 2018. The cumulative-effect adjustment on January 1, 2018 was an increase to equity of $0.5 million.
- In certain cases, the Company will incur pre-operational costs that relate directly to a specific customer contract, that generate or enhance resources of the Company that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Such costs will be deferred and amortized over the duration of the customer contract. The Company previously expensed such costs as incurred unless the costs were directly reimbursable by the contract or if they were related to the mobilization of offshore assets to an oil field. This change had the impact of decreasing voyage expenses by $1.2 million, vessel operating expenses by $1.0 million and depreciation and amortization by $0.7 million

for the three months ended March 31, 2018, as well as increasing other assets by $14.9 million, and equity by $14.9 million as at March 31, 2018. The cumulative increase to opening equity as at January 1, 2018 was $12.4 million.

- Operating costs for the Company's Volatile Organic Compounds (or *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. This had the impact of increasing revenues and vessel operating expenses for the three months ended March 31, 2018 by $1.4 million. There was no cumulative impact to opening equity as at January 1, 2018.
- The Company previously presented all accrued revenue as a component of accounts receivable. The Company has determined that if the right to such consideration is conditional upon something other than the passage of time before payment of that consideration is due, such accrued revenue should be presented apart from accounts receivable. This had the impact of increasing other current assets and decreasing accounts receivable by $2.0 million at March 31, 2018. There was 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 currently intends to adopt ASU 2016-02 effective January 1, 2018 using a transition approach whereby a cumulative effect adjustment is made as of the effective date of January 1, 2018, with no retrospective effect. To determine the cumulative effect adjustment, the Company has not reassessed whether any expired or existing contracts are, or contain leases, has not reassessed lease classification, and has not reassessed initial direct costs for any existing leases. The quarter in which the Company adopts ASU 2016-02 and the estimated impact from adoption contained below are based upon the expectation that FASB will issue an additional ASU that will allow adoption of the ASU, with retrospective effect to January 1, 2018. The Company is currently considering the potential impact of a delay in the finalization of this additional ASU on its adoption date. The adoption of ASU 2016-02 will result in a change in the accounting method for the lease portion of the daily charter hire for the Company's chartered-in vessels accounted for as operating leases with firm periods of greater than one year. Under ASU 2016-02, the Company will recognize a right-of-use asset and a lease liability on the balance sheet for these charters based on the present value of future minimum lease payments, whereas currently no right-of-use asset or lease liability is recognized. This will have the result of increasing the Company's assets and liabilities. The pattern of expense recognition of chartered-in vessels is expected to remain substantially unchanged, unless the right of use asset becomes impaired. The cumulative right-of-use asset and corresponding lease liability had it been recognized on January 1, 2018 was $17.0 million. In addition, direct financing lease payments received will be presented as an operating cash inflow instead of an investing cash inflow in the statement of cash flows.

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

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. Financial Instruments

a) Fair value measurements

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see Note 4 in the Company's audited consolidated financial statements filed with its Annual Report for the period from the date of incorporation on July 5, 2017 to December 31, 2017. 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.

		March 31, 2018		December 31, 2017	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $
Recurring:					
Cash, cash equivalents and restricted cash	Level 1	93,210	93,210	96,314	96,314
Derivative instruments *(note 7)*					
Interest rate swap agreements	Level 2	2,322	2,322	441	441
Foreign currency forward contracts	Level 2	832	832	(582)	(582)
Non-Recurring:					
Vessels and equipment *(note 10)*	Level 2	17,370	17,370	—	—
Other:					
Long-term debt, including current portion - public *(note 5)*	Level 1	(246,863)	(248,870)	(246,687)	(252,138)
Long-term debt, including current portion - non-public *(note 5)*	Level 2	(1,013,641)	(1,040,346)	(977,134)	(1,006,408)

b) Financing Receivables

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

	Credit Quality Indicator	Grade	March 31, 2018 $	December 31, 2017 $
Direct financing leases	Payment activity	Performing	5,792	5,821

4. Revenues

The Company's primary source of revenues is chartering its shuttle tankers to its customers. The Company utilizes three primary forms of contracts, consisting of contracts of affreightment, time-charter contracts and bareboat charter contracts. The Company also generates revenues from the operation of VOC systems on 11 of the Company's shuttle tankers.

Contracts of affreightment (CoA)

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

Time Charters

Pursuant to a time charter contract, the Company charters a vessel to a customer for a fixed period of time, generally one year or more. The performance obligations within a time-charter contract, which will include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of such contract, as measured using the time that

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

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

Bareboat Charters

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

Voyage Charters

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

Management Fees and Other

The Company also generates revenues from the operation of VOC systems on 11 of the Company's shuttle tankers. Such services include the arrangement of third party goods and services for the asset's disponent owner. The performance obligations within these contracts will typically consist of technical management. The performance obligations are satisfied concurrently and consecutively rendered over the duration of the management contract, as measured using the time that has elapsed from commencement of performance. Consideration for such contracts will generally consist of a fixed monthly management fee and all operational costs for the VOC systems. Management fees are typically invoiced monthly.

Revenue Table

The following table contains the Company's revenue for the three months ended March 31, 2018 by contract type:

	March 31, 2018
	$
Contracts of affreightment	45,176
Time charters	76,134
Bareboat charters	12,731
Voyage charters	5,762
Other	2,184
Total	141,987

The following table contains the Company's revenue from contracts that do not contain a lease element and the non-lease element of time-charters accounts for as direct financing leases for the three months ended March 31, 2018:

	March 31, 2018
	$
Non-lease revenue - related to sales type or direct financing lease	1,401
Other	783
Total	2,184

Contracts Assets and Liabilities

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

	March 31, 2018	December 31, 2017
Contract Liabilities	$	$
Current	500	500
Non-Current	2,229	2,353
	2,729	2,853

During the three months ended March 31, 2018, the Company recognized $0.1 million of revenue that was included in contract liabilities at the beginning of the period.

Contracts Costs

In certain cases, the Company incurs pre-operational costs that relate directly to a specific customer contract, that generate or enhance resources of the Company that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Those costs will primarily include costs incurred to reposition a vessel to a location where a charterer will take delivery of the vessel. In certain cases, the Company will need to make judgements about whether costs relate directly to a specific customer contract or whether costs were factored into the pricing of a customer contract and thus expected to be recovered. Such deferred costs are amortized over the duration of the customer contract. Amortization of such costs for the three months ended March 31, 2018 was $0.4 million.

The closing balances of assets recognized from the costs to fulfill a contract with a customer, totalled $14.9 million.

5. Long-Term Debt

	March 31, 2018	December 31, 2017
	$	$
U.S. Dollar-denominated Revolving Credit Facility due through 2022	550,000	575,000
U.S. Dollar-denominated Term Loans due through 2021	80,057	85,574
U.S. Dollar-denominated Term Loan due through 2030	265,800	191,916
U.S. Dollar Non-Public Bonds due 2024	137,927	140,697
U.S. Dollar Public Bonds due through 2022	250,000	250,000
Total principal	1,283,784	1,243,187
Less debt issuance costs and other	(23,280)	(19,366)
Total debt	1,260,504	1,223,821
Less current portion	(156,148)	(159,012)
Long-term portion	1,104,356	1,064,809

As at March 31, 2018, the Company had one revolving credit facility (December 31,2017 - one), which, as at such date, provided for total borrowings of up to $550 million, which was fully drawn. The total amount available under the revolving credit facilities reduces by $75.0 million (remainder of 2018), $100.0 million (2019), $100.0 million (2020), $100.0 million (2021), and $175.0 million (2022). The revolving credit facility is guaranteed by the Company for all outstanding amounts and contains 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. The revolving credit facility is collateralized by first-priority mortgages granted on 18 of the Company's vessels, together with other related security.

As at March 31, 2018, three of the Company's 50%-owned subsidiaries had a total of two outstanding term loans (December 31, 2017 - two), which in the aggregate totaled $80.1 million (December 31, 2017 - $85.6 million). 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 March 31, 2018, the Company had one term loan outstanding for three shuttle tankers. As at March 31, 2018, the carrying value of the loan was $265.8 million (December 31, 2017 - $191.9 million) and reduces over time with semi-annual payments. This term loan matures in 2030 and is collateralized by first-priority mortgages on the vessels to which the loans relate, together with other related security. As at March 31, 2018, the Company had guaranteed the term loan.

In September 2013 and November 2013, one of the Company's subsidiaries issued, in a U.S. private placement, a total of $174.2 million of ten-year senior bonds that mature in January 2024 to finance the *Bossa Nova Spirit* and *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 subsidiary makes semi-annual repayments on the bonds and as at March 31, 2018, the carrying amount of the bonds was $137.9 million (December 31, 2017 - $140.7 million).

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

Interest payments on the revolving credit facility and the term loans are based on LIBOR plus margins. At March 31, 2018, the margins ranged between 1.85% and 3.00% (December 31, 2017 - 2.40% and 3.50%). The weighted-average interest rate on the Company's variable rate long-term debt as at March 31, 2018 was 4.9% (December 31, 2017 - 4.7%). This rate does not include the effect of the Company's interest rate swaps (see note 7) or fixed rate facilities.

The aggregate annual long-term debt principal repayments required to be made subsequent to March 31, 2018 are $126.3 million (remainder of 2018), $143.0 million (2019), $141.9 million (2020), $161.9 million (2021), $368.5 million (2022), and $342.2 million (thereafter).

The Company's revolving credit facility, term loans and bonds contain covenants and other restrictions typical of debt financing secured by vessels that restrict the ship-owning subsidiaries from incurring or guaranteeing indebtedness; changing ownership or structure, including mergers, consolidations, liquidations and dissolutions; making dividends or distributions if we are in default or don't meet minimum debt-service coverage ratio (or *DSCR*) requirements; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; or entering into a new line of business. Obligations under the Company's credit facilities are secured by certain vessels, and if the Company is unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets. The Company

has one revolving credit facility and two term loans that require the Company to maintain vessel values to drawn principal balance ratios of a minimum range of 113% to 125%. Such requirement is assessed either on a semi-annual or annual basis, with reference to vessel valuations compiled by one or more agreed upon third parties. Should the ratio drop below the required amount, the lender may request the Company to either prepay a portion of the loan in the amount of the shortfall or provide additional collateral in the amount of the shortfall, at the Company's option. As at March 31, 2018, these ratios were estimated to range from 131% to 184% and the Company was in compliance with the minimum ratios required. The vessel values used in calculating 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.

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

6. Related Party Transactions

a) During the three months ended March 31, 2018, and for the period from the date of incorporation on July 5, 2017 to December 31, 2017, three shuttle tankers of the Company were employed on long-term time-charter-out contracts with subsidiaries of Teekay Corporation.

b) 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:

	Three Months Ended March 31, 2018
	$
Revenues [(1)]	11,340
Vessel operating expenses [(2)]	(5,018)
General and administrative [(3)]	(2,746)

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

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

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

c) At March 31, 2018, the carrying value of due from affiliates totaled $197.3 million and of due to affiliates totaled $176.8 million. Amounts due to and from affiliates are non-interest bearing and unsecured, and all current due to and from affiliates balances are mostly expected to be settled within the next fiscal year in the normal course of operations or from financings.

7. 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 three months ended March 31, 2018 and from as cash flow hedges.

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

	Contract Amount in Foreign Currency (thousands)	Fair Value / Carrying Amount of Asset (Liability) (in thousands of U.S. Dollars) Non-hedge	Average Forward Rate[(1)]	Expected Maturity 2018	Expected Maturity 2019
				(in thousands of U.S. Dollars)	
Norwegian Kroner	305,000	832	7.98	27,502	10,700

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

Interest Rate Risk

The Company enters into interest rate swaps, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. All of these interest rate swaps are designated and accounted for as hedges in the consolidated financial statements.

As at March 31, 2018, 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	2,322	4.5	2.1%

(1) Excludes the margin the Company pays on its variable-rate debt, which at March 31, 2018, ranged from 1.85% to 3.00%.

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.

Three Months Ended March 31, 2018		
Effective Portion Recognized in AOCI [(1)]	Effective Portion Reclassified from AOCI [(2)]	Ineffective Portion [(3)]
(1,881)	(100)	—

(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 March 31, 2018					
Foreign currency contracts	718	144	—	(15)	(15)
Interest rate swaps	268	2,054	2	—	—
	986	**2,198**	**2**	**(15)**	**(15)**
As at December 31, 2017					
Foreign currency contracts	104	28	—	(647)	(67)
Interest rate swaps	—	677	(2)	(236)	—
	104	**705**	**(2)**	**(883)**	**(67)**

Total realized and unrealized gain (loss) 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 gain (loss) on derivative instruments in the unaudited consolidated statement of loss. The effect of the gain (loss) on these derivatives in the unaudited consolidated statement of loss for the three months ended March 31, 2018 is as follows:

	Three Months Ended March 31, 2018
	$
Realized loss on derivative instruments	
Interest rate swap	(62)
Foreign currency forward contracts	158
	96
Unrealized loss on derivative instruments	
Foreign currency forward contracts	1,413
Total realized and unrealized loss on derivative instruments	1,509

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.

8. Income Taxes

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

	Three Months Ended March 31, 2018
Current	(68)
Deferred	(11,943)
Income tax expense	(12,011)

9. Commitments and Contingencies

In July, 2017, certain subsidiaries of the Company 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 $594 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, and two to operate directly within the North Sea CoA fleet, which will add vessel capacity to service the Company's CoA portfolio in the North Sea. As at March 31, 2018, payments made towards these commitments were $24.7 million and the remaining payments required to be made are estimated to be $61.3 million (remainder of 2018), $225.5 million (2019) and $282.5 million (2020). The Company expects to secure long-term debt financing related to these shuttle tanker newbuildings.

10. Write-down of vessels

During the three months ended March 31, 2018, the carrying value of the *Nordic Spirit* and *Stena Spirit* shuttle tankers were written down to their estimated fair values, using appraised values, due to the expected redelivery of these vessels from their charterer after completing their bareboat charter contracts in April 2018 and the resulting change in the expectations for the future opportunities for the vessels. The Company's consolidated statement of income for the three months ended March 31, 2018 includes a $28.5 million write-down related to these vessels of which $14.2 million is included in a 50%-owned subsidiary of the Company.

FORWARD-LOOKING STATEMENTS

This quarterly report contains certain forward-looking statements concerning future events and our operations, performance and financial condition, including, 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 liquidity needs and meeting our going concern requirements, anticipated funds and sources of financing for liquidity needs and the sufficiency of cash flows, and our estimation that we will have sufficient liquidity for at least the next one-year period;
- our ability to refinance existing debt obligations, to raise additional debt and negotiate extensions or redeployments of existing assets;
- the expected lifespan and residual value of our vessels;
- acquisitions from third parties and obtaining offshore projects, that we or Teekay Corporation bid on or may be awarded;
- certainty of completion, estimated delivery and completion dates, commencement of charter, intended financing and estimated costs for newbuildings and acquisitions, including the shuttle tanker newbuildings;
- the expected employment of the newbuilding shuttle tankers under our existing master agreement with Statoil and the expected required capacity in our CoA fleet in the North Sea;
- expected employment and trading of older shuttle tankers;
- the expectations as to the chartering of unchartered vessels;
- our entering into joint ventures or partnerships with companies;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term time charter contracts;
- timing of settlement of amounts due to and from affiliates;
- the future valuation of goodwill;
- our compliance with covenants under our credit facilities;
- the ability of the counterparties for our derivative contracts to fulfill their contractual obligations;
- our hedging activities relating to foreign exchange, interest rate and spot market 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; and

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words “believe”, “anticipate”, “expect”, “estimate”, “project”, “will be”, “will continue”, “will likely result”, “plan”, “intend” or words or phrases of similar meanings. These statements 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: changes in production of oil from offshore oil fields; changes in oil prices; changes in the demand for offshore oil transportation, production and storage services; greater or less than anticipated levels of vessel newbuilding orders or greater or less than anticipated rates of vessel recycling; changes in trading patterns; changes in our expenses; the timing of implementation of new laws and regulations; potential inability to implement our growth strategy; competitive factors in the markets in which we operate; potential for early termination of long-term contracts and our potential inability to renew or replace long-term contracts; loss of any customer, time charter or vessel; shipyard production, conversion or vessel delivery delays; failure to obtain required approvals by the Conflicts Committee of our general partner to acquire other vessels or offshore projects from Teekay Corporation or third parties; to raise financing to refinance debt maturities, fund existing projects or purchase additional vessels; our cash flows and levels of available cash, and the levels of cash reserves established by the Board of Directors and required by any financing agreements; our exposure to currency exchange rate fluctuations; changes to the amount or proportion of revenues and expenses denominated in foreign currencies; delays in the start-up of offshore oil fields related to the CoA contracts or the actual vessel equivalent requirements of new CoAs; and other risk factors detailed from time to time in our periodic reports filed with the Olso Bors, including our Annual Report for the year ended December 31, 2017. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.