



Prospectus

Teekay Shuttle Tankers L.L.C.

Registration Document

Oslo, April 12, 2018



As Global Coordinator and Joint Lead Manager



As Joint Lead Manager



As Joint Lead Manager



As Joint Lead Manager

Important information

Before investing in the bonds, a prospective investor should consider carefully the factors set forth in Section 1—Risk Factors, and all of the other information included or incorporated by reference into the Prospectus, and should consult his or her own expert advisers as to the suitability of an investment in the bonds.

This Registration Document is subject to the general business terms of the Joint Lead Managers, available at their respective websites (www.dnb.no, www.danskebank.no, www.nordea.no and www.swedbank.no).

The Joint Lead Managers and/or any of their affiliated companies and/or officers, directors and employees may be a market maker or hold a position in any instrument or related instrument discussed in this Registration Document, and may perform or seek to perform financial advisory or banking services related to such instruments. The corporate finance department of either Joint Lead Manager may act as manager or co-manager for the Company in private and/or public placement and/or resale not publicly available or commonly known.

Copies of this Registration Document are not being mailed or otherwise distributed or sent in or into or made available in the United States. Persons receiving this document (including custodians, nominees and trustees) must not distribute or send such documents or any related documents in or into the United States.

Other than in compliance with applicable United States securities laws, no solicitations are being made or will be made, directly or indirectly, in the United States. Securities will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The distribution of the Registration Document may be limited by law also in other jurisdictions, for example in the United Kingdom. Approval of the Registration Document by Finanstilsynet (the Norwegian FSA) implies that the Registration Document may be used in any EEA country. No other measures have been taken to obtain authorisation to distribute the Registration Document in any jurisdiction where such action is required.

The Norwegian FSA has controlled and approved the Registration Document pursuant to the Norwegian Securities Trading Act, § 7-7. The Norwegian FSA has not controlled and approved the accuracy or completeness of the information given in the Registration Document. The control and approval performed by the Norwegian FSA relates solely to descriptions included by the Company according to a pre-defined list of content requirements. The Norwegian FSA has not undertaken any form of control or approval of corporate matters described in or otherwise covered by the Registration Document. The Registration Document was approved by the Norwegian FSA on April 13, 2018. The Registration Document is valid for 12 months from the approval date.

The Registration Document together with a Securities Note constitutes the Prospectus.

The content of the Prospectus does not constitute legal, financial or tax advice and potential investors should seek legal, financial and/or tax advice.

Unless otherwise stated, the Prospectus is subject to Norwegian law. In the event of any dispute regarding the Prospectus, Norwegian law will apply.

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1 Risk Factors

Investing in bonds issued by Teekay Shuttle Tankers L.L.C. involves inherent risks.

Prospective investors should consider, among other things, the risk factors set out in the Prospectus, including those set out in the Securities Note, before making an investment decision. The risks and uncertainties described in the Prospectus are risks of which the Issuer is aware and that the Issuer considers to be material to its business. If any of such risks were to occur, the Group's business, financial position, operating results or cash flows could be materially adversely affected, and the Issuer could be unable to pay interest, principal or other amounts on or in connection with the Bonds. An investment in securities of the Issuer entails significant risks and is suitable only for investors who understand the risks associated with this type of investment and who can afford a loss of all or part of the investment. Any of the following risks may adversely affect the Group's business, operating results or financial condition.

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 Partners L.P. and Teekay Corporation to assist the Group in operating its businesses and competing in its markets.** Direct and indirect subsidiaries of Teekay Offshore Partners L.P. 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 Issuer'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 Issuer 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 Issuer'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 Issuer's future growth depends on the ability to expand relationships with existing customers and obtain new customers.
- **Market conditions may limit the Issuer's access to capital.** Depressed market conditions in the energy sector may significantly reduce the Issuer'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 Issuer'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

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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 Issuer'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 Issuer's subsidiaries to pay dividends and make distributions to the Issuer, 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 Issuer'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 Issuer'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 Issuer'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 Issuer), 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 Issuer.
- **Fluctuations in interest rates may materially affect the Issuer'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 Issuer, 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 of the Bonds, 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.

Risks related to the Bonds

- **The Bonds may not be a suitable investment for all investors.** Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should have sufficient knowledge and experience to make a meaningful evaluation of the Bonds and the merits and risks of investing in the Bonds.
- **Risks relating to the Issuer's inability to repay the Bonds.** The Group's ability to generate cash flow from operations and to make scheduled payments on and to repay or refinance its indebtedness, including the Bonds, will depend on the future financial performance of the Group. The future performance of the Group will be affected by a range of economic, competitive, governmental, operating and other business factors, many of which are beyond the Group's control. The Issuer is a holding company, and has no operations of its own. Cash distributions from the Issuer's subsidiaries represent the sole source of the Issuer's cash flow, other than any cash proceeds from borrowings by the Issuer. Therefore, the Issuer's cash flow depends primarily on the results of the operations of its subsidiaries and the ability of its subsidiaries to make distributions to the Issuer.
- **Risks related to the market for the Bonds.** At the date of this Prospectus, there is no existing market for the Bonds, and there can be no assurance given regarding the future development of a trading market for the Bonds following listing on the Oslo Stock Exchange. The pricing of the Bonds can be

volatile even if a trading market develops. Potential investors should note that it may be difficult or even impossible to trade and sell the Bonds in the secondary market.

- **Risks related to transfer restrictions on the Bonds.** As the Group is relying upon exemptions from registration under the U.S. Securities Act, applicable U.S. state securities laws, securities laws of jurisdictions outside of the U.S. (the "Securities Laws") in the placement of the Bonds, the Bonds may only be transferred in a transaction registered under or exempt from the registration or prospectus requirements of the Securities Laws in the future. Therefore, investors may not be able to sell their Bonds at their preferred time or price. The Group cannot assure investors as to the future liquidity of the Bonds.
- **If a trading market develops for the Bonds, the trading price of the Bonds may be volatile.** Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Bonds.
- **Significant changes in exchange rates may have a material adverse effect on the value of the principal payable on the Bonds.** As the Issuer will repay principal of and pay interest on the Bonds in US Dollars, significant changes to the applicable currency exchange rates due to economic, political or other factors present certain risks if an investor's financial activities are denominated principally in a currency other than the US Dollar.
- **Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.** As the Bonds bear interest at a fixed rate, an increase in applicable interest rates might make the income payable on the Bonds less attractive, and may reduce the price investors could realize on the sale of the Bonds. In addition, any inflation will reduce the real value of the Bonds over time, also affecting the price that an investor could realize on a sale of the Bonds.
- **Prospective investors may not be able to recover in civil proceedings for U.S. securities laws violations.** The Issuer is incorporated pursuant to the law of the Marshall Islands, and the Issuer's sole director currently resides outside the United States and substantially all of its assets are currently located outside the United States. As a result, prospective investors may be unable to effect service of process on the Issuer or these individuals within the United States, or to recover on judgments of U.S. courts in any civil proceedings under the U.S. federal securities laws. The Bond Terms are governed by Norwegian Law, with Oslo, Norway as proper venue.
- **The Bonds will be junior to and structurally subordinated to the Issuer's secured debt and the debt of its Subsidiaries.** The Group has substantial levels of debt. The secured creditors of the Issuer will have priority over the assets securing their debt. In addition, the Bonds will be structurally subordinated to the debt of the Issuer's Subsidiaries. In the event that such secured debt becomes due or a secured lender proceeds against the assets that secure the debt, the assets would be available to satisfy obligations under the secured debt before any payment would be made on the Bonds. Any assets remaining after repayment of the Issuer's secured debt may not be sufficient to repay all amounts owing under the Bonds.
- **Defaults or insolvency of Subsidiaries.** Defaults by, or the insolvency of, certain subsidiaries of the Issuer could result in the obligation of the Issuer to make payments under any Issuer financial or performance guarantees in respect of such Subsidiaries' obligations, or cause cross-defaults on certain borrowings of the Group, including the Issuer. There can be no assurance that the Group and its assets would be protected from any actions by the creditors of any Subsidiary of the Issuer, whether under bankruptcy law, by contract or otherwise. In addition, the global nature of the Group's operations may make the outcome of any bankruptcy proceedings difficult to predict.
- **Prepayment events may lead to a prepayment of the Bonds in circumstances where an investor may not be able to reinvest the prepayment proceeds at an equivalent rate of interest.** In accordance with the Bond Terms, the Bonds are subject to prepayment by the Issuer on the occurrence of (i) a Change of Control Event, being where Teekay Offshore ceases to control the Issuer or is subject to a de-listing from the New York Stock Exchange, in which case each bondholder has a right to demand pre-payment of its Bonds, or (ii) a change in the tax regime applicable to the Issuer, in which event the Issuer has the right to redeem all the Bonds. Following any early redemption after the occurrence of any of the aforesaid events, it may not be possible for bondholders to reinvest such proceeds at an effective interest rate as high as the interest rate on the Bonds and they may only be able to do so at a significantly lower rate.

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- **The terms and conditions of the Bond Terms will allow for modification of the Bonds or waivers or authorizations of breaches and substitution of the Issuer which, in certain circumstances, may be effected without the consent of bondholders.** The Bond Terms will contain provisions for calling meetings of bondholders. These provisions permit defined majorities to make decisions affecting and binding all bondholders. The Bond Trustee may, without the consent of the bondholders, agree to certain modifications of the Bond Terms and other finance documents which, in the opinion of the Bond Trustee, are proper to make. These actions may also include waivers of breaches or substitution of the Issuer.
- **The Issuer may be unable to redeem the Bonds upon a change of control event.** Upon the occurrence of a Change of Control Event (as defined in the Bond Terms), each bondholder has a right of pre-payment of the Bonds as set out in the Bond Terms. However, the Issuer may not have sufficient funds to make the required redemption of Bonds, resulting in an event of default under the Bonds.

2 Persons responsible

2.1 Persons responsible for the information

Persons responsible for the information given in this Registration Document are as follows:

Teekay Shuttle Tankers L.L.C., 4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

2.2 Declaration by persons responsible

This Registration Document has been prepared by Teekay Shuttle Tankers L.L.C. The Company confirms that, having taken all reasonable care to ensure that such is the case, the information contained in the registration document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Hamilton (Bermuda), April 12, 2018

Teekay Shuttle Tankers L.L.C.

Edith Robinson, President

3 Statutory Auditors

3.1 Names and addresses

The Company's independent auditor is KPMG LLP (KPMG), located at 777 Dunsmuir Street, Suite 900, PO Box 10426, Vancouver, British Columbia V7Y 1K3, Canada.

The Predecessor's audited combined carve-out financial statements as of September 30, 2017 and December 31, 2016 and for the nine months ended September 30, 2017 and for the year ended December 31, 2016 (the Predecessor Combined Carve-Out Financial Statements), have been audited by KPMG. The Predecessor Combined Carve-Out Financial Statements and KPMG's report thereon, are included in Annex II – Financial Statements to this Registration Document.

4 Forward Looking Statements

The Registration Document includes forward looking statements, including in Section 6 (Business Overview), that involve risks and uncertainties. Such forward-looking statements relate to future events and Company's and the Group's operations, objectives, expectations, performance, financial condition and intentions. When used in this Registration Document, 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 are necessarily 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 the Company's control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Although it is believed that the expectations are based upon reasonable assumptions, the Company can give no assurance that those expectations will be achieved or that the actual results will be as set out in the Prospectus.

5 Information about the Company

5.1 History and development of the Company

5.1.1 Legal and commercial name

The legal name of the Issuer is Teekay Shuttle Tankers L.L.C.; the commercial name of the Issuer is Teekay Shuttle Tankers.

5.1.2 Place of registration and registration number

The Company is registered in the Marshall Islands Register of Companies with registration number 963965.

5.1.3 Date of incorporation

Teekay Shuttle Tankers L.L.C. was formed/incorporated on July 5, 2017 and its operations substantially started on October 3, 2017.

5.1.4 Domicile and legal form

The Company is a limited liability company organized under the laws of The Republic of The Marshall Islands. The Company operates under the provisions of the Marshall Islands Limited Liability Company Act.

The Company maintains its principal executive headquarters at its registered address 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. The telephone number at such address is (441) 298-2530.

5.1.5 Recent events relevant to evaluation of solvency

There are no recent events related to the Group which to a material extent are relevant for the evaluation of the Issuer's solvency.

6 Business overview

6.1 *Principal activities*

6.1.1 Brief description of history and principal activities

History

Teekay Shuttle Tankers L.L.C. is the world's largest owner and operator of shuttle tankers. Teekay Shuttle Tankers was formed in July 2017 by Teekay Offshore Partners L.P. (NYSE:TOO), 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 was formed by Teekay Offshore in connection with a strategic transaction between Teekay Offshore and its two sponsors, Teekay Corporation (NYSE:TK), a portfolio manager of marine services to the global oil and natural gas industries, and Brookfield Business Partners L.P. (NYSE:BBU)(TSX:BBU.UN), 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). As part of the strategic transaction, Teekay Offshore carved out its shuttle tanker business into a separate wholly owned subsidiary, Teekay Shuttle Tankers.

Teekay Shuttle Tankers has a conservative capital structure, with stable and growing cash flows, which are expected to enable it to further build on its market positions with its vessels operating under medium- to long-term fixed rate contracts and CoAs.

As of January 1, 2018, Teekay Shuttle Tankers' fleet consisted of 37 shuttle tankers, including five newbuildings on order. Of the 35 owned shuttle tankers, 29 are held by wholly owned subsidiaries, and six are held by 50% owned subsidiaries.

Recent Developments

In July 2017, Teekay Shuttle Tankers 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 \$300 million, with options to order up to two additional vessels. These newbuilding vessels will be constructed based on the Company's New Shuttle Spirit design, which incorporates technologies intended 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 an existing master agreement with Statoil, which will add vessel capacity to service Teekay Shuttle Tankers' CoA portfolio in the North Sea.

In October 2017, Teekay Offshore transferred its shuttle tanker business into a new, wholly-owned, non-recourse subsidiary, Teekay Shuttle Tankers L.L.C.. As part of the formation of the Company, a majority of Teekay Offshore's shuttle tanker fleet was refinanced with a new \$600.0 million, five-year debt facility within ShuttleCo. In addition, an existing \$250.0 million debt facility secured by the three East Coast of Canada newbuildings, an existing \$140.7 million private placement bond secured by two vessels and a \$71.2 million facility secured by two 50%-owned vessels, were transferred from Teekay Offshore to the Company.

In November 2017, Teekay Shuttle Tankers declared options with Samsung Heavy Industries Co. Ltd. to construct two additional Suezmax DP2 shuttle tanker newbuildings, for an aggregate fully built-up cost of approximately \$289 million. These newbuildings will also be constructed based on the New Shuttle Spirit design. Upon delivery in 2020, these vessels will join Teekay Shuttle Tankers' CoA portfolio in the North Sea.

6.1.2 Teekay Shuttle Tankers L.L.C.

Teekay Shuttle Tankers L.L.C. was formed / incorporated on July 5, 2017 and its operations started October 3, 2017. Accordingly, audited financial statements of Teekay Shuttle Tankers for 2015 and 2016 are not available.

Teekay Shuttle Tankers' Strategy

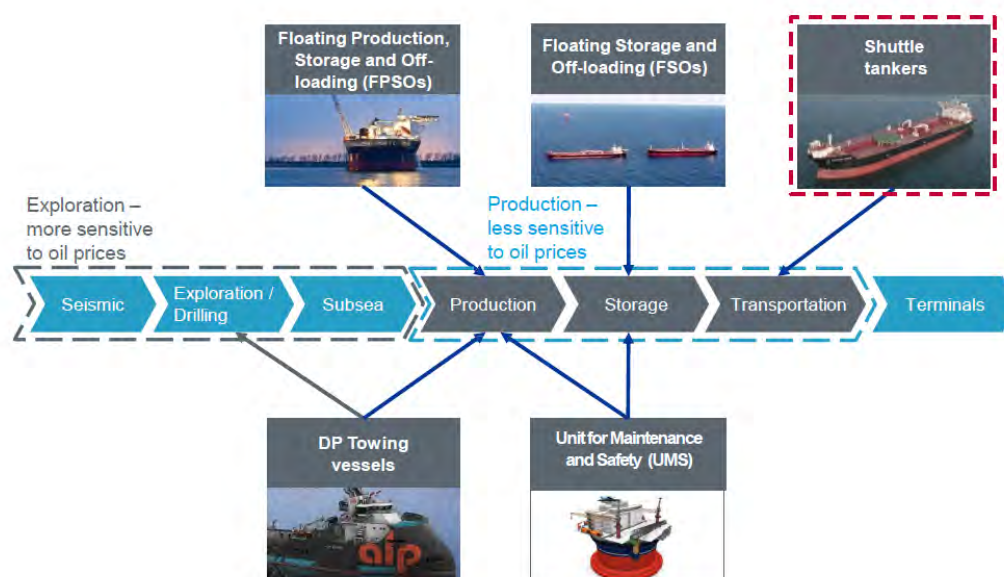
- Generate stable cash flows through a diversified portfolio of charter contracts with strong counterparties
- Pursue sustainable long-term growth to further build on leading market position

- Provide consistent delivery of superior customer service
- Maintain a conservative financial strategy with focus on balance sheet strength and financial flexibility

Shuttle Tanker Overview

Shuttle Tankers are Essential to Our Customers

TOO is focused on the more stable production part of the oil supply chain



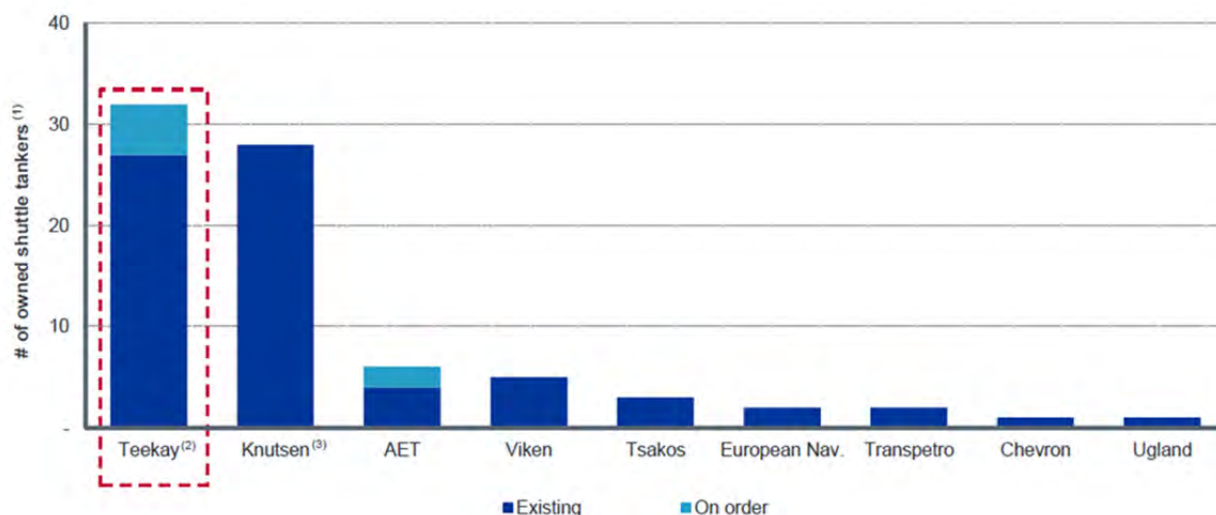
A shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely 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 Issuer's shuttle tankers are primarily subject to long-term, fixed-rate time-charter contracts for a specific offshore oil field or under CoAs for various fields. The number of voyages performed under these CoAs 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 the Issuer's CoA 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.

Teekay Shuttle Tankers is the Leading Shuttle Tanker Operator

Top two players own ~70% of the global shuttle tanker fleet



**There are currently only seven newbuild shuttle tankers to be delivered in 2017-2019
(all ordered against long-term contracts)**



Sources: Fearnley Research Services (July 2017), Clarkson Research Services (July 2017), company websites

(1) Fleet as of July 2017

(2) Includes six shuttle tankers in which Teekay Shuttle Tankers has a 50% ownership interest

(3) Includes vessels owned by both Knutsen NYK and KNOT Offshore Partners L.P. (NYSE: KNOP)

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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 37 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 Issuer 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.

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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		January 2018
Heather Knutsen ⁽⁷⁾	148,600	2005	In-chartered (until December 2018)	DP2	Canada	TC	ExxonMobil, Canada Hibernia, Chevron, Husky, Mosbacher, Murphy, Nalcor, Statoil, Suncor ⁽²⁾	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.

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- (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.

The Partnership 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 Partnership 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. The Partnership has assessed the useful life of both the tanker component and the shuttle component as being 20 years. The Partnership monitors the useful life of the tanker component for vessels within the shuttle tanker segment. Depreciation is calculated on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. The Partnership's older shuttle tankers operating on time-charters or Contracts of Affreightment do not experience materially reduced earnings than the younger vessels in its fleet.

6.1.3 statements regarding competitive position

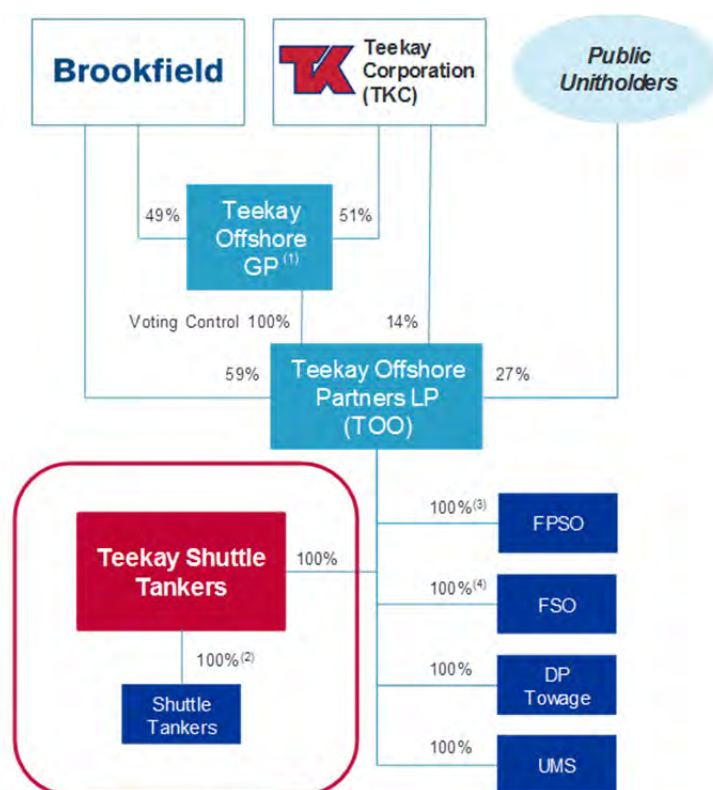
Please see Section 6.1.2 -- Teekay Shuttle Tankers L.L.C -- Shuttle Tanker Overview for additional information about the Issuer's competitive position.

7 Organizational structure

7.1 Description of group of which Issuer is a part

The Company is a wholly owned indirect subsidiary of Teekay Offshore Partners LP., a master limited partnership whose common units are listed on The New York Stock Exchange.

Teekay Shuttle Tankers L.L.C. is a recently formed holding company that holds ownership interests in direct and indirect subsidiaries. The Company's shuttle tanker business is conducted through, and the Company's operating assets are owned by, such subsidiaries.



(1) TKC has granted Brookfield an option to purchase from it an additional 2% GP interest, subject to the satisfaction of certain conditions.

(2) Includes six shuttle tankers owned 50% by Teekay Shuttle Tankers

(3) Includes two FPSO units owned 50% by TOO

(4) Includes one FSO unit owned 89% by TOO

The following is a list of Teekay Shuttle Tanker L.L.C.'s significant subsidiaries as at the date of this Registration Document:

<u>Name of Significant Subsidiary</u>	<u>Ownership</u>	<u>State or Jurisdiction of Incorporation</u>
Teekay Offshore Operating L.P.	100%	Marshall Islands
Teekay Shuttle Tanker Finance L.L.C.	100%	Marshall Islands
Teekay Offshore Operating Pte. Ltd.	100%	Singapore
Teekay Navion Offshore Loading Pte. Ltd.	100%	Singapore
Norsk Teekay Holdings Ltd.	100%	Marshall Islands
Teekay Norway AS	100%	Norway

7.2 Dependence upon other entities

Cash distributions from the Issuer's subsidiaries represent the sole source of the Issuer's cash flow, other than any cash proceeds from borrowings by the Issuer. Therefore, the Issuer's cash flow depends primarily on the results of the operations of its subsidiaries and the ability of its subsidiaries to make distributions to the Issuer.

The Issuer depends primarily on Teekay Offshore Partners L.P. and its subsidiaries and affiliates, as well as Teekay Corporation and its subsidiaries and affiliates, to aid it in the operation of its business and competing in its markets. Please read Section 1 and specifically the following risk factors: "The Group depends on Teekay Offshore Partners L.P. and Teekay Corporation to assist the Group in operating its businesses and competing in its markets" and "The Group is dependent on experienced managers and employees" and Section 10.2 -- Administrative, management and supervisory bodies conflicts of interest.

Teekay Offshore GP L.L.C., the general partner (the General Partner) of Teekay Offshore Partners L.P., which owns the Company, indirectly manages the Company's operations and activities. As of the date of this Registration Document, 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 Issuer. Please see Section 11.1--Ownership.

8 Trend information

8.1 Statement of no material adverse change

Effective as of 3 October 2017, the Company substantially commenced its business activity, which represented a continuation of the shuttle tanker business of Teekay Offshore Partners L.P. which Teekay Offshore Partners L.P. contributed to the Company on or about such date. The Predecessor Combined Carve-Out Financial Statements reflect certain results of the Predecessor as described in note 1 to such financial statements. There has been no material adverse change in the prospects of the Company since the most recent date of the Predecessor Combined Carve-Out Financial Statements, being 30 September 2017.

9 Profit Forecasts or Estimates

Neither a profit forecast nor a profit estimate is included in this Registration Document.

10 Administrative, management and supervisory bodies

10.1 Information about persons

Teekay Shuttle Tankers maintains its principal headquarters at 4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda.

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 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. Please also see Section 7.2--Dependence upon other entities.

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 Pitts 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 a 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

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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 shipowning and chartering group. Joining as Fednav's Treasurer in 1979, he became Vice-President Finance in 1984 and joined the Board of Directors. In 1998, Mr. Peacock was appointed Executive Vice-President of Fednav and President and Chief Operating Officer of Fednav International Ltd., the Group's principal operating subsidiary. Though retired, he continues to serve as a Director. Mr. Peacock has over 40 years accounting experience, and prior to joining Fednav was a partner with Clarkson Gordon (now Ernst & Young) in Montreal, Canada. 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.

10.2 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 Registration Document, 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. Please see Section 11.1--Ownership.

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.

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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 in item 10.1 to the Issuer and their private interests or other duties of such persons.

11 Major shareholders

11.1 Ownership

The Issuer is a wholly-owned subsidiary of Teekay Offshore Partners L.P. (NYSE: TOO).

The General Partner indirectly oversees the operations and activities of Teekay Offshore. A subsidiary of Teekay Corporation (NYSE: TK) owns a 51% interest in the general partner. An affiliate of Brookfield Business Partners L.P. (NYSE: BBU) (TSX: BBU.UN) (Brookfield) owns the remaining 49% interest in the general partner and has an option to acquire from Teekay Corporation an additional 2% interest in the general partner, subject to certain conditions. As of January 1, 2018, the public held a total of 26.7% of Teekay Offshore's outstanding common units, an affiliate of Brookfield held 59.5% of Teekay Offshore's outstanding common units and Brookfield TK TOGP L.P., an affiliate of Brookfield, held a 49% interest in our general partner, and an affiliate of Teekay Corporation held the remaining 13.8% of Teekay Offshore's outstanding common units.

As of the date of this Registration Document, the General Partner's board of directors consists of nine members, five of which are elected by a subsidiary of Teekay Corporation (of whom three are independent of Teekay Corporation and Teekay Offshore) and four of which are elected by Brookfield. If Brookfield exercises its option to purchase an additional 2% interest in the General Partner from Teekay Corporation, members of the board of directors will be elected by the owner or owners holding a majority of all the interests in the General Partner, except that Teekay Corporation will retain the right to elect up to two directors as long as certain conditions are satisfied.

As of the date of this Registration Document, the General Partner and the Partnership may not engage in certain actions without Brookfield's consent, which actions include, among others and in each case subject to specified exceptions, (i) authorizing, issuing, splitting, combining or reclassifying equity securities of the General Partner or Teekay Offshore, (ii) incurring indebtedness in excess of \$50 million, (iii) amending Teekay Offshore's or the General Partner's organizational documents or specified corporate policies, (iv) entering into a transaction with any affiliate of Teekay Offshore in excess of \$1 million, (v) entering into acquisition or divestment transactions, or making capital expenditures, in each case, in excess of \$50 million, (vi) entering into, amending, waiving or terminating contracts in excess of \$50 million or certain other contracts, (vii) commencing or settling litigation or dispute resolution proceedings in excess of \$5 million, (viii) entering into any merger, business combination or spin-off transaction or taking any other action that requires the approval of the holders of Teekay Offshore's common units, (ix) increasing or decreasing the size of the board of directors of the General Partner, (x) making material changes to the employment of certain officers of Teekay Offshore, (xi) effecting any material change in the nature of the business or operations of Teekay Offshore, (xii) approving a business plan or annual budget of Teekay Offshore involving an increase in expenditures in excess of 5% over the prior fiscal year, (xiii) declaring or paying dividends or distributions on the General Partner's or Teekay Offshore's equity securities, excluding certain ordinary quarterly distributions, or (xiv) redeeming, purchasing or otherwise acquiring equity securities of the General Partner or Teekay Offshore.

11.2 Change in control of the Issuer

There are no arrangements, known to the Company, the operation of which may at a subsequent date result in a change in control of the Company, other than Brookfield's option to acquire an additional 2% of the General Partner, as described above under section 11.1 "Ownership".

12 Selected financial information concerning the Company's assets and liabilities, financial position and profits and losses

12.1 Historical Financial Information for the Company

As Teekay Shuttle Tankers L.L.C. was formed / incorporated on July 5, 2017 and its operations substantially started October 3, 2017, audited accounts for 2015 and 2016 have not been published.

The Predecessor Combined Carve-Out Financial Statements have been prepared specifically for the purpose of this Prospectus. These financial statements are presented on a combined basis as if the Group had existed as a separate legal group prior to such date. The Predecessor Combined Carve-Out Financial Statements have been derived from financial statements and historical accounting records of Teekay Offshore and its subsidiaries, employing the methods and assumptions discussed in note 1 of the Predecessor Combined Carve-Out Financial Statements. The Company's management believes the assumptions underlying the Predecessor Combined Financial Statements are reasonable. However, the Predecessor Combined Carve-Out Financial Statements as presented may not reflect the results of operations, cash flows and financial condition the Group would have had if the Group had been run as a separate legal group during the periods presented and may not be indicative of future performance. The Predecessor Combined Carve-Out Financial Statements (a) reflect the financial condition and results of operations of the ship-owning entities relating to the shuttle tankers included in the Company's initial fleet, prior to their acquisition by the Company when they were owned by Teekay Offshore, and (b) exclude the financial condition and results of operations of the ship-owning entities that were acquired by the Company. As a result, the information in the Predecessor Combined Carve-Out Financial Statements is not indicative of the Company's current financial condition or results of operations.

The Predecessor Combined Carve-Out Financial Statements have been prepared in conformity with GAAP.

A summary of Teekay Shuttle Tanker's significant accounting policies is set forth in note 1 to the Predecessor Combined Carve-Out Financial Statements.

12.2 Financial statements

See Section 12.1. Historical Financial Information for the Company.

12.3 Auditing of historical annual financial information

12.3.1 Statement of audited historical financial information

The historical financial information as contained in this prospectus includes the Predecessor Combined Carve-Out Financial Statements as of September 30, 2017 and December 31, 2016 and for the nine month period ended September 30, 2017 and the year ended December 31, 2016 have been prepared in accordance with U.S.GAAP and audited by KPMG LLP as described in their report thereon.

12.3.2 Other audited information

Except as set forth in Section 12.3.1 above, no other information in this Registration Document has been audited.

12.4 Age of latest financial information

12.4.1 Last year of audited financial information

The last year of audited financial information contained in the prospectus includes the Predecessor Combined Carve-Out Financial Statements as of and for the year ended December 31, 2016. Also included are audited Predecessor Combined Carve-Out Financial Statements as of September 30, 2017 of the and for the nine month period ended September 30, 2017.

12.5 Legal and arbitration proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the Issuer and/or Company's financial position or profitability.

12.6 Significant change in the Company's financial or trading position

There has not occurred any significant change in the financial or trading position of the Company since the end of the last financial period for which interim financial information is contained in the Predecessor Combined Carve-Out Financial Statements, being 30 September 2017.

13 Material contracts

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which the Company or any of its subsidiaries is a party, for the two years immediately preceding the date of the Registration Document, which could result in the Company being under an obligation or entitlement that is material to its ability to meet its obligations to security holders:

Teekay Offshore has entered into an omnibus agreement with Teekay LNG Partners L.P. (NYSE: TGP) (Teekay LNG), Teekay Corporation and related parties governing, among other things, when Teekay Offshore, Teekay LNG, and Teekay Corporation may compete with each other and providing for rights of first offer on the transfer or rechartering of certain LNG carriers, oil tankers, shuttle tankers, floating storage and off-take units and floating production, storage and offloading units. Subject to applicable exceptions, the omnibus agreement generally provides that (a) neither Teekay Corporation nor Teekay LNG will own or operate offshore vessels (including shuttle tankers) that are subject to contracts with a duration of three years or more, excluding extension options, (b) neither Teekay Corporation nor Teekay Offshore (on its own behalf and on behalf of its subsidiaries, including the Issuer) will own or operate liquefied natural gas carriers and (c) neither Teekay LNG nor Teekay Offshore will own or operate crude oil tankers, other than crude oil tankers included in their respective fleets as of the dates of their respective initial public offerings. The omnibus agreement is applicable to the Company as a subsidiary of Teekay Offshore.

Subsidiaries of Teekay Offshore and Teekay Corporation have entered into services agreements with the Group pursuant to which they provide various services to the Group, including substantially all of its managerial, operational and administrative services and other technical and advisory services. The Group pays a reasonable fee for these services, including reimbursement of the service providers' direct and indirect expenses incurred in providing these services.

Agreement, dated September 2017, between the Company and Nordea Bank, as Agent, for a U.S. \$600,000,000 five-year credit facility. The facility bears interest at LIBOR plus a margin of 3%. The amount under the facility reduces by \$100 million annually, with a balloon repayment due on maturity in September 2022. The credit facility is collateralized by first-priority mortgages granted on 18 of the Group's vessels.

Agreement, dated August 2016, between the Company and DNB Bank, as Agent, for a U.S. \$250,000,000 five-year credit facility. The facility initially bears interest at LIBOR plus a margin of 3%, increasing to LIBOR plus a margin of 4% 12-months after the delivery date of the last vessel. The amount under the facility reduces by approximately \$33 million annually, with a balloon repayment due on maturity in October 2023. The credit facility is collateralized by first-priority mortgages granted on three of the Group's newbuilding vessels.

Agreement, dated September 2013, between the Company and bond investors for a U.S. \$174,150,000 10-year secured bond. The bond has a fixed coupon of 4.96%. The amount under the secured bond reduces annually, with a balloon repayment due on maturity in December 2023. The credit facility is collateralized by first-priority mortgages granted on two of the Group's vessels.

14 Third party information and statement by experts and declarations of any interest

14.1 Third party information

None third party information and statement by experts and declarations of any interest in the Registration Document.

15 Documents on display

The following documents (or copies thereof) may be inspected for the life of the Registration Document at the headquarters of the Company, 4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda:

- (a) the memorandum and articles of association of the Issuer, as amended;
- (b) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the Company's request, any part of which is included or referred to in the Registration Document; and
- (c) the Predecessor Combined Carve-Out Financial Statements for the nine months ended September 30, 2017 and the year ended December 31, 2016.

Certain Definitions

AET	American Eagle Tankers
Company/Issuer/ Teekay Shuttle Tankers	Teekay Shuttle Tankers L.L.C.
Bond Terms	Means the agreement governing the Bond Issue dated 9 August 2017 and entered into between Teekay Shuttle Tankers L.L.C and Nordic Trustee ASA.
CoA	Means contract of affreightment, which is a contract with a charterer for a specified voyage or voyages, or for a specified time. The charterer agrees to pay a specified freight for the use of the shuttle tanker.
DP2	Means a computer-controlled system to automatically maintain a vessel's position and heading by using its own propellers and thrusters (Dynamic Positioning, or DP), using two independent computers.
Forward Looking Statements:	Means statements relating to future events and the Company's operations, objectives, expectations, performance, financial condition and intentions, and, by their nature, are inherently subject to risks and uncertainties and are entirely qualified by the description set forth in Section 4 of this Registration Document including the fact that such statements are based upon the Company's reasonable assumptions at the time such statements were made. Accordingly, the Company can give no assurance that these expectations will be achieved or that the actual results will be as set out in this Registration Document.
FSO	Floating Storage and Off-loading
GAAP	U.S. generally accepted accounting principles.
Group	Means, collectively, the Company and its subsidiaries.
Group Company	Means any person which is a member of the Group.
Joint Lead Managers	Danske Bank, Norwegian branch, DNB Bank ASA, DNB Markets, Nordea Bank AB (publ), Norwegian branch and Swedbank Norway, branch of Swedbank AB (publ)
LNG	Liquefied natural gas
NYSE	New York Stock Exchange
Predecessor	Means the shuttle tanker business of Teekay Offshore Partners L.P. contributed to the Company in October 2017
Predecessor Combined Carve-Out Financial Statements	See Section 3 -- Statutory Auditors
Registration Document	This document dated April 12, 2018.
SEC	The U.S. Securities and Exchange Commission
Securities Note	Document describing the terms of a bond loan. The Securities Note dated April 12, 2018 together with the Registration Document dated April 12, 2018 constitutes the Prospectus.
Service Provider	Teekay Offshore Group Ltd., a wholly owned subsidiary of Teekay Offshore Partners L.P.
Teekay Corporation	Teekay Corporation and/or any one or more of its subsidiaries.

Registration Document

The General Partner	Teekay Offshore GP L.L.C., the general partner of Teekay Offshore Partners L.P.
The Partnership / Teekay Offshore	Teekay Offshore Partners L.P. and/or one or more of its subsidiaries
Time-charter	Means a contract for the chartering of a vessel for a pre-agreed fixed period of time.
TSX	Toronto Stock Exchange

Joint Lead Managers' disclaimer

Danske Bank, Norwegian branch, DNB Bank ASA, DNB Markets, Nordea Bank AB (publ), Norwegian branch and Swedbank Norway, branch of Swedbank AB (publ), the Joint Lead Managers, have assisted the Company in preparing the Registration Document. The Joint Lead Managers have not verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and the Joint Lead Managers expressly disclaim any legal or financial liability as to the accuracy or completeness of the information contained in this Registration Document or any other information supplied in connection with the issuance or distribution of bonds by Teekay Shuttle Tankers L.L.C.

This Registration Document is subject to the general business terms of the Joint Lead Managers, available at their respective websites. Confidentiality rules and internal rules restricting the exchange of information between different parts of the Joint Lead Managers may prevent employees of the Joint Lead Managers who are preparing this Registration Document from utilizing or being aware of information available to the Joint Lead Managers and/or any of their affiliated companies and which may be relevant to the recipient's decisions.

Each person receiving this Registration Document acknowledges that such person has not relied on the Joint Lead Managers, nor on any person affiliated with it in connection with its investigation of the accuracy of such information or its investment decision.

Oslo (Norway), April 12, 2018

Danske Bank,
Norwegian branch

DNB Bank ASA,
DNB Markets

Nordea Bank AB (publ),
Norwegian branch

Swedbank Norway, branch
of Swedbank AB (publ)

Annex I - Teekay Shuttle Tankers L.L.C. Articles of Association

Annex II - Predecessor Combined Carve-Out Financial Statements

Predecessor Combined Carve-Out Financial Statements for the nine months ended September 30, 2017 and the year ended December 31, 2016.

Limited Liability Company Agreement

of

TEEKAY SHUTTLE TANKERS L.L.C.

A Marshall Islands Limited Liability Company

Dated: as of the 5th day of July, 2017

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Exhibits:

Exhibit 1: Certificate of Formation

Exhibit 2: LLC Certificate

LIMITED LIABILITY COMPANY AGREEMENT

This Limited Liability Company Agreement of TEEKAY SHUTTLE TANKERS L.L.C., a Marshall Islands limited liability company (the “**Company**”), is made and entered into effective as of the 5th day of July, 2017 by Teekay Offshore Holdings L.L.C. (“**TOH**”).

RECITALS

WHEREAS, TOH desires to form a limited liability company (the “**Company**”) pursuant to the Act for the purpose of engaging in any lawful activity permitted by the Act.

NOW THEREFORE it is agreed as follows:

1 DEFINITIONS

1.1 Defined Terms

When used in this Agreement, the following terms shall have the meanings set forth below:

- (a) “**Act**” means the Marshall Islands Limited Liability Company Act of the Republic of The Marshall Islands Associations Law, as the same may be amended from time to time.
- (b) “**Agreement**” means this Amended and Restated Limited Liability Company Agreement as further amended, modified, supplemented or restated from time to time in accordance with its terms.
- (c) “**Affiliate**” means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used in the foregoing definition, the term “control” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.
- (d) “**Board of Directors**” shall have the meaning set forth in Section 4.1 of this Agreement.
- (e) “**Capital Contributions**” means the total amount of cash and/or assets which a Member contributes to the Company as capital pursuant to this Agreement.

- (f) **"Certificate of Formation"** means the Certificate of Formation in the form of Exhibit 1 hereto which was filed pursuant to the Act with the Republic of The Marshall Islands Registrar of Corporations pursuant to which the Company was formed as a Marshall Islands limited liability company.
- (g) **"Directors"** means the members of the Board of Directors.
- (h) **"Indemnatee"** means (i) any Person who is or was a Member, (ii) any Person who is or was an Affiliate of any Member, (V) any Person who is or was a Director or Officer, or a fiduciary or trustee, of the Company, (iv) any Person who is or was a member, shareholder, partner, director, officer, fiduciary or trustee of any Member or an Affiliate of any Member, (v) any Person who is or was serving at the request of the Company, any Member or any Affiliate of any Member as an officer, director, member, partner, fiduciary or trustee of another Person, provided that such Person shall not be an Indemnatee by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services, and (vi) any Person the Company designates as an "Indemnatee" for purposes of this Agreement. .
- (i) **"Initial Directors"** shall have the meaning set forth in Section 4.1 of this Agreement.
- (j) **"LLC Certificate"** shall have the meaning set forth in Section 2.8(a) of this Agreement.
- (k) **"Member"** means TOH and any Person who, at the time of reference thereto, has been admitted to the Company as a Member in accordance with this Agreement, including any Transferee, and shall have the same meaning as the term "Member" under the Act, but shall not include any Person who has ceased to be a Member of the Company.
- (l) **"Officers"** shall have the meaning set forth in Section 4.4(a) of this Agreement.
- (m) **"Person"** means a natural person, corporation, partnership, joint venture, trust, estate, unincorporated association, limited liability company, or any other juridical entity.
- (n) **"Transferee"** shall have the meaning set forth in Section 2.8(b) of this Agreement.

1.2 Number and Gender.

As the context requires, all words used herein in the singular number shall extend to and include the plural, all words used in the plural number shall extend to and include the singular, and all words used in any gender shall extend to and include the other gender or be neutral.

2 ORGANIZATION

2.1 Formation.

By their execution of this Agreement, the Member authorizes Edith Robinson to file the Certificate of Formation pursuant to the Act with the Republic of the Marshall Islands Registrar of Corporations and, upon such filing, this Company will be formed as a Marshall Islands limited liability company

2.2 Name.

The name of the Company is "TEEKAY SHUTTLE TANKERS L.L.C." and all Company business shall be conducted in that name or such other names that comply with applicable law as the Board of Directors may from time to time designate.

2.3 Purposes.

The purposes for which the Company is established is to engage in any lawful activity permitted by the Act.

2.4 Registered Office; Registered Agent.

The registered office of the Company required by the Act to be maintained in the Republic of The Marshall Islands shall be the office of the initial registered agent named in the Certificate of Formation or such other office as the Board of Directors may designate from time to time in the manner provided by law. The registered agent of the Company required by the Act to be maintained in the Republic of The Marshall Islands shall be the initial registered agent named in the Certificate of Formation or such other person or persons as the Board of Directors may designate from time to time in the manner provided by law.

2.5 Principal Office.

The principal office of the Company shall be determined by the Board of Directors from time to time.

2.6 Term.

The Company commenced on the date the Certificate of Formation was accepted for filing by the Republic of the Marshall Islands Registrar of Corporations and shall have perpetual existence, unless the Company is dissolved in accordance with the Act.

2.7 Liability to Third Parties.

No Member shall be liable for the debts, obligations or liabilities of the Company, including, without limitation, under a judgment, decree or order of a court.

2.8 LLC Certificate; Transfer of Ownership Interest; Pledge of Ownership Interest.

- (a) A Member's ownership of its limited liability company interest in the Company shall be evidenced by a certificate of limited liability interest ("**LLC Certificate**") substantially in the form of Exhibit 2 hereto.
- (b) Subject to the provisions of Section 2.8(c) herein, upon the endorsement by a Member on such LLC Certificate (or on a separate transfer power) in favor of a third party (a "**Transferee**") and the delivery of such LLC Certificate (and such separate power, if applicable) to such Transferee, such Member shall be deemed to have assigned and transferred all its right, title and interest in the Company and in this Agreement to such Transferee and all references in this Agreement to such Member shall be deemed to refer to such Transferee, in each case effective as of the date of such LLC Certificate delivery. A Member's right, title and interest in the Company shall not be transferred other than as provided in this Section 2.8(b).
- (c) The pledge of, or granting of a security interest, lien or other encumbrance in or against, any or all of the limited liability company interest of a Member in the Company shall not cause such Member to cease to be a Member until the secured party shall have lawfully exercised its remedies under the security agreement and completed the endorsement in favor of a Transferee. Until the exercise of such remedies, the secured party shall not have the power to exercise any rights or powers of a Member

3 **CAPITAL CONTRIBUTIONS**

3.1 Initial Capital Contributions.

Parent shall contribute such sums and/or assets as it, in its sole discretion, shall deem necessary or appropriate to enable the Company to carry out the purposes for which the Company was formed and in consideration thereof, the LLC Certificate shall be issued in favor of Parent as provided for in Section 2.8 above.

3.2 Additional Capital Contributions

A Member may contribute such additional sums and/or assets, if any, as it shall determine in its sole discretion.

3.3 Liability Limited to Capital Contributions.

No Member shall have any obligation to contribute money to the Company with respect to any liability or obligation of the Company. No Member shall be liable for the debts, obligations or liabilities of the Company, including, without limitation, under a judgment, decree or order of a court.”.

3.4 No Interest on Capital

Except as otherwise expressly provided herein, no Member shall receive any interest on its capital contributions to the Company.

3.5 Stated Capital

All capital contributions paid by the Member to the Company shall be deemed “stated capital”.

4 **MANAGEMENT**

4.1 Board of Directors.

Except for decisions or actions requiring the approval of the Member as provided in this Agreement or by non-waivable provisions of the Act or applicable law, the powers of the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of, a board of directors (the “**Board of Directors**”) comprised of no less than one (1) and no more than nine (9) Directors. Subject to such limitations, the exact number of Directors shall be fixed from time to time by resolution of the Board of Directors and such number may be increased or decreased from time to time by

vote of a majority of the Directors then in office; **provided that** the Board of Directors initially shall be comprised of one (1) Director (the “**Initial Director**”), who shall be appointed by the Member. The Board of Directors may make all decisions and take all actions for the Company as in its sole discretion it shall deem necessary or appropriate to enable the Company to carry out the purposes for which the Company was formed and to further the interests of the Member, including, without limitation, the following:

- (a) adopting, by written consent or otherwise, resolutions in the name and on behalf of the Company authorizing any decisions or actions taken pursuant to this Section 4.1;
- (b) entering into, making and performing contracts, agreements, undertakings and financial guarantees in the name and on behalf of the Company;
- (c) setting aside reserves, opening and maintaining bank and investment accounts and arrangements, drawing checks and other orders for the payment of money, and designating individuals with authority to sign or give instructions with respect to those accounts and arrangements;
- (d) collecting sums due to the Company;
- (e) selecting, removing, and changing the authority and responsibility of lawyers, auditors and other advisers and consultants;
- (f) (i) creating such committees of the Board of Directors as the Board of Directors may deem necessary, appropriate or advisable, in its sole discretion, to carry on the affairs of the Company, (ii) selecting and removing (with or without cause, upon the affirmative vote of a majority of all of the Directors then in office) the members of such committees (*provided, however*, that such committees shall be comprised only of Directors and shall have only as many members as the Board of Directors deems appropriate), and (V) changing the authority and responsibilities of such committees; and
- (g) granting signatory authority to and issuing Powers of Attorney in favor of such persons as it may deem necessary or appropriate to carry out and implement any decisions or actions taken pursuant to this Section 4.1.

Notwithstanding anything in this agreement to the contrary, the Board of Directors shall conduct the affairs and governance of the Company so that (i) the Company is not a resident of Canada for the purposes of the Canadian Tax Act and (ii) the Company is not carrying on business in

Canada for the purposes of the Canadian Income Tax Act or the United States for the purposes of the US Internal Revenue Code.

4.2 Board Membership.

- (a) The Members shall have full authority unilaterally to appoint, by majority vote, such individuals to be Directors as they shall choose in their sole discretion, and to remove and replace, by majority vote, any Director they appoint to the Board of Directors, with or without 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”) except in the case of the death, resignation or dismissal of one or more Directors who are not residents of the Canada for purposes of the Canadian Tax Act, provided that within 21 days of such death, resignation or dismissal either (1) the Members shall appoint one or more new non-resident Directors to replace each non-resident Director who died, resigned or was dismissed or (2) one or 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.
- (b) Each Director shall be appointed to serve until his or her successor shall be appointed and shall qualify until his or her earlier resignation or removal.
- (c)
 - i. The Member shall have the right to designate one Director to hold the title of Chairman for a period of one year.
 - ii. Where only one (1) or two (2) Directors are appointed to the Board of Directors, the Member may appoint an alternate director. The alternate director shall act as a Director in place of one (1) Director in all respects in the event that one (1) of such one (1) or two (2) Directors is not available.

4.3 Meetings, Quorum, Voting, Etc.

- (a) Meetings of the Board of Directors shall be called by the Secretary of the Company, or in the absence of the Secretary, by the Chairman of the Board of Directors, upon request of any Director. Notice of the date, time and place of each meeting of the Board of

Directors shall be given to each Director at least forty-eight hours prior to such meeting, unless the notice is given orally or delivered in person, in which case it shall be given at least twenty-four hours prior to such meeting. For the purpose of this Section 4.3(a), notice shall be deemed to be duly given to a Director if given to him or her personally (including by telephone) or if such notice be delivered to such Director by courier service, mail, email, telegraph, cable, telex, or facsimile, to his or her last known address. Notice of a meeting need not be given to any Director who submits a signed waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior to the conduct of any voting thereat, the lack of notice to him or her. All meetings of the Board of Directors shall take place outside of Canada and the United States.

- (b) At all meetings of the Board of Directors, a quorum for the transaction of business shall be two (2) Directors, or one (1) Director and one (1) alternate director unless the Board of Directors is comprised of one (1) Director in which case quorum shall be comprised of one (1) Director or one (1) alternate director. However, that such quorum shall be properly constituted only if a majority of the Directors included in such quorum are not residents of Canada for purposes of the Canadian Tax Act.
- (c) Directors may participate in a meeting of the Board of Directors by means of conference call or any similar communications equipment by means of which all Directors participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. A meeting of the Board of Directors by means of such a call or any similar communication shall take place only by means of such a call or communication originated outside of the United States or Canada, shall be properly constituted only if a majority of the Directors participating in the meeting in person or by such call or communication are not residents of Canada for purposes of the Canadian Tax Act and no Director is participating from a location in the United States and a majority of the Directors participating in the meeting in person or by such call participate from or at a location outside Canada, and shall be deemed to be held at the place from where such call or communication originated.
- (d) All decisions to be made and actions to be taken by the Board of Directors or a committee of the Board of Directors shall be determined by the vote of a majority of the Directors in attendance, and entitled to vote, at a meeting at which a quorum is present.

- (e) Any action which may be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the Directors then in office. The action taken by any unanimous consent in writing shall be deemed to have occurred when the last Director executing such consent shall have signed the consent; provided, however, that the last Director to execute such consent shall not have done so while in Canada.
- (f) Unless the Board of Directors shall otherwise provide, any committee of the Board of Directors may hold meetings at any place outside Canada or the United States and make rules for the conduct of its business as such committee shall from time to time deem necessary; provided, however, that a majority of the members of such committee then in office shall be persons who are not residents of Canada for purposes of the Canadian Tax Act. At all meetings of a committee of the Board of Directors, a quorum for the transaction of business shall be a majority of the members then in office provided, however, that such quorum shall be properly constituted only if a majority of the members included in such quorum are not residents of Canada for purposes of the Canadian Tax Act. Each committee shall keep a record of its proceedings and report the same to the Board of Directors when required. No committee shall have the power to fill vacancies in the Board of Directors, or to change the membership of or to fill vacancies in, any other committee created by the Board of Directors, or to amend or repeal this Agreement or adopt a new limited liability company agreement, or to submit to the Member any action requiring its authorization, or to amend or repeal any resolution of the Board of Directors which by its terms shall not be amendable or repealable. All meetings of any committee of the Board of Directors shall be held outside Canada.

4.4 Delegation of Authority and Duties.

- (a) The Board of Directors may, from time to time as it deems advisable, appoint and elect (as well as remove or replace at any time with or without cause for any reason) (i) a Chief Executive Officer, (ii) a Chief Financial Officer, (iii) a Secretary and (iv) such other officer positions assigned to individuals as it may elect (collectively, the "Officers"). Each Officer shall be a natural person who is not a resident of the United States for the purposes of Internal Revenue Code, and shall be authorized to, and shall, act in such capacity only outside of Canada or the United States. Any two or more offices may be

held by the same person. If so appointed by the Board of Directors, the Officers shall have the authority and duties as may from time to time be assigned to them.

- (b) In addition, the Board of Directors may, from time to time as it deems advisable, delegate to one or more natural persons (inclusive of any Director) such authority and duties as the Board of Directors is granted under this Agreement and not made subject to the approval of the Member by this Agreement, and the Board of Directors may assign in writing such titles to any such person as it deems appropriate. Any such person to whom such authority and duties are delegated by the Board of Directors shall not, during the time that such authority or duties are delegated, be a resident of the United States for purposes of the Internal Revenue Code and shall be authorized to, and shall, act in such capacity only outside of the United States or Canada. Any delegation pursuant to this Section 4.4(b) may be revoked at any time by the Board of Directors with or without cause for any reason.
- (c) Unless the Board of Directors decides otherwise, if the title of any person authorized to act on behalf of the Company under this Section 4.4 is one commonly used for officers of a business corporation formed under the Marshall Islands Business Corporations Act, the assignment of such title shall constitute the delegation to such person of the authority and duties that are normally associated with that office, subject to any specific delegation of, or restriction on, authority and duties made pursuant to this Section 4.4. Any delegation or restriction pursuant to this Section 4.4(c) may be revoked at any time by the Board of Directors, with or without cause for any reason.
- (d) Unless authorized to do so by this Agreement or by the Board of Directors, no Director, Officer, agent or employee of the Company shall have any power or authority to bind the Company in any way, to pledge its credit, or to render it liable pecuniarily for any purpose. However, the Company may act by an attorney in fact authorized by the Board of Directors, provided that no such attorney-in-fact shall, while having such authority, be a resident of the United States for purposes of the Internal Revenue Code and shall not be authorized to, and shall not, exercise such authority in the United States or Canada.

4.5 Execution of Documents.

- (a) Any agreements, contracts or other documents or correspondence executed on behalf of the Company, including an LLC Certificate, shall be signed by the individual executing same as follows:

TEEKAY SHUTTLE TANKERS L.L.C.

By: _____
Name:
Title:

- (b) Any agreements, contracts or other documents or correspondence executed by the Company, on its own behalf shall be executed only outside of the United States or Canada.

4.6 Compensation of Directors and Officers.

- (a) Members of the Board of Directors shall not receive compensation for their services to the Company. This provision shall be without prejudice to the terms of any contract of services held by any such person. The Board of Directors or any compensation committee appointed by the Board of Directors may, from time to time, authorize the reimbursement by the Company of such expenses (including travel expenses) as may be incurred by Directors in the performance of their duties hereunder (including attendance at meetings of the Board of Directors).
- (b) The Officers shall serve with or without such compensation for their services to the Company as the Board of Directors or any compensation committee appointed by the Board of Directors thereof shall determine.

4.7 Indemnification.

- (a) Subject to Section 4.8(b) below, each person who was or is made a party to or is otherwise involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a Director or Officer of the Company or that, being or having been such a Director or Officer of the Company, he or she is or was serving at the request of the Company as a director, officer, employee or agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnified Party"), whether the basis of such proceeding is

alleged action in an official capacity as such a Director or Officer of the Company, or as a director, officer, employee or agent or in any other capacity while serving as such a Director or Officer of the Company, or as such a director, officer, employee or agent, shall be indemnified and held harmless by the Company to the full extent permitted by applicable law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than permitted prior thereto), or by other applicable law as then in effect, against all expense, liability and loss (including attorneys' fees, judgments, fines and taxes or penalties and amounts paid in settlement) actually and reasonably incurred or suffered by such Indemnified Party in connection therewith and such indemnification shall continue as to an Indemnified Party who has ceased to be a Director or Officer of the Company, or a director, officer, employee or agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise and shall inure to the benefit of the Indemnified Party's heirs, executors and administrators; provided however, that except as provided in Section 4.7(b) hereof with respect to proceedings seeking to enforce rights to indemnification, the Company shall indemnify any such Indemnified Party in connection with a proceeding (or part thereof) initiated by such Indemnified Party only if such proceeding (or part thereof) was authorized or ratified by the Board of Directors. The right to indemnification conferred in this Section 4.7(a) shall be a contract right and shall include the right to be paid by the Company the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that if the Act requires, an advancement of expenses incurred by an Indemnified Party in his or her capacity as a Director or Officer (and not in any other capacity in which service was or is rendered by such Indemnified Party, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Company of an undertaking (hereinafter an "undertaking"), by or on behalf of such Indemnified Party, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such Indemnified Party is not entitled to be indemnified for such expenses under this Section 4.7(a) or otherwise.

- (b) If a claim under Section 4.7(a) hereof is not paid in full by the Company within sixty days after a written claim has been received by the Company, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty

days, the Indemnified Party may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Company to recover an advancement of expenses pursuant to the terms of an undertaking, the Indemnified Party shall be entitled to be paid also the expense of prosecuting or defending such suit. The Indemnified Party shall be presumed to be entitled to indemnification under this Section upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses, where the required undertaking, if any is required, has been tendered to the Company), and thereafter the Company shall have the burden of proof to overcome the presumption that the Indemnified Party is not so entitled. Neither the failure of the Company (including its Board of Directors, independent legal counsel or its Members) to have made a determination prior to the commencement of such suit that indemnification of the Indemnified Party is proper in the circumstances nor an actual determination by the Company (including its Board of Directors, independent legal counsel or its Members) that the Indemnified Party is not entitled to indemnification shall be a defense to the suit or create a presumption that the Indemnified Party is not so entitled.

- (c) The indemnification provided by this section 4.7 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, as a matter of law or otherwise, both as to actions in the Indemnitee's capacity as an Indemnitee and as to actions in any other capacity, and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.
- (d) The Company may purchase and maintain (or reimburse any Member or its Affiliates for the cost of) insurance, on behalf of any Member, its Affiliates and such other Persons as the Board of Directors shall determine, against any liability that may be asserted against, or expense that may be incurred by, such Person in connection with the Company's activities or such Person's activities on behalf of the Company, regardless of whether the Company would have the power to indemnify such Person against such liability under the provisions of this Agreement.
- (e) In no event may an Indemnitee subject the Member to personal liability by reason of the indemnification provisions set forth in this Agreement.

- (f) An Indemnitee shall not be denied indemnification in whole or in part under this Section 4.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.
- (g) The provisions of this Section 4.7 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.
- (h) No amendment, modification or repeal of this Section 4.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Company, nor the obligations of the Company to indemnify any such Indemnitee under and in accordance with the provisions of this Section 4.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

4.8 Liability of Indemnitees.

- (a) No Indemnitee shall be personally liable for the debts and obligations of the Company.
- (b) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable, responsible or accountable in damages or otherwise to the Company or any Member for any action taken or any failure to act (even if such action or failure to act constituted the simple negligence of the Indemnitee) on behalf of the Company within the scope of the authority conferred on such Indemnitee by this Agreement or by law, unless such act or failure to act constituted gross negligence or was performed or omitted willfully or intentionally or in bad faith.
- (c) To the full extent that the Act permits the limitation or elimination of liability of Directors, a Director shall not be liable to the Company or its Member for monetary damages for breach of fiduciary duty as a Director.
- (d) Any amendment, modification or repeal of this Section 4.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability of the Indemnitees under this Section 4.8 as in effect immediately prior to such amendment,

modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

5 DISTRIBUTIONS

5.1 Distributions/Available Cash.

The Board of Directors shall in its sole discretion determine from time to time to what extent (if any) the Company's cash on hand exceeds the current and anticipated needs of the Company. To the extent any such excess exists, the Board of Directors may make distributions to the Member, subject to the Act.

5.2 Notwithstanding the foregoing, upon liquidation of the Company, prior to any distributions to the Member (after payment of all liabilities), the Company shall distribute to the Member an amount equal to the aggregate stated capital, to the extent of available cash.

6 BOOKS AND RECORDS; FISCAL YEAR; BANK ACCOUNTS; TAX MATTERS

6.1 Books and Records.

The books and records of the Company shall, at the cost and expense of the Company, be kept by the Company at the principal office of the Company or at such other location as the Board of Directors may from time to time determine.

6.2 Fiscal Year.

Unless otherwise determined by the Board of Directors, the Company's books and records shall be kept on a December 31 calendar year basis and shall reflect all Company transactions and be appropriate and adequate for conducting the Company's affairs.

6.3 Bank Accounts.

All funds of the Company will be deposited in its name in an account or accounts with such bank or banks selected by the Board of Directors. Checks shall be drawn upon the Company account or accounts only for the purposes of the Company and may be signed by such persons as may be designated by the Board of Directors.

6.4 Tax Matters.

The Member intends and acknowledges that, for so long as it remains a Member of the Company, the Company shall be disregarded as a separate entity from the Member for U.S. federal income tax purposes and the Member shall file such elections with the U.S. federal tax authorities as may be required to assure such tax status.

7 MISCELLANEOUS

7.1 Complete Agreement.

This Agreement and the exhibits hereto constitute the complete and exclusive statement of the agreement regarding the formation and operation of the Company and replace and supersede all prior agreements regarding the formation or operation of the Company.

7.2 Governing Law.

This Agreement and the rights of the parties hereunder will be governed by, interpreted, and enforced in accordance with the laws of the Marshall Islands without giving regard to principles of conflicts of law.

7.3 Headings.

All headings herein are inserted only for convenience and ease of reference and are not to be considered in the construction or interpretation of any provision of this Agreement.

7.4 Severability.

If any provision of this Agreement is held to be illegal, invalid or unenforceable under the present or future laws effective during the term of this Agreement, such provision will be fully severable; this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

7.5 No Third Party Beneficiary.

This Agreement is made solely and specifically for the benefit of the Member and its successors and assigns and no other Persons shall have any rights, interest or claims hereunder or be entitled to any benefits under or on account of this Agreement as a third party beneficiary or otherwise.

7.6 Amendment.

All amendments to this Agreement must be in writing and signed by the Member.

WHEREFORE, this Limited Liability Company Agreement has been executed by a duly authorized representative of the Member as of the date first set forth above.

TEEKAY OFFSHORE HOLDINGS L.L.C.

By: 

Name: Edith Robinson

Title: President

**CERTIFICATE OF FORMATION OF
TEEKAY SHUTTLE TANKERS L.L.C.
UNDER SECTION 9 OF THE LIMITED LIABILITY COMPANY ACT**

The undersigned, Edith Robinson, President of Teekay Offshore Holdings L.L.C., authorized signatory of TEEKAY SHUTTLE TANKERS L.L.C., for the purpose of forming a Marshall Islands Limited Liability Company, hereby certifies:

1. The name of the Limited Liability Company is TEEKAY SHUTTLE TANKERS L.L.C. (the "Company").
2. The registered address of the Company in the Marshall Islands is Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960. The name of the Company's Registered Agent in the Marshall Islands upon whom process may be served at such address is The Trust Company of the Marshall Islands, Inc.
3. The formation date of the Company is the date of the filing of this Certificate of Formation with the Registrar of Corporations.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation on this ____ day of July, 2017.

TEEKAY SHUTTLE TANKERS L.L.C.
By: Teekay Offshore Holdings L.L.C.,
its Sole Member

Name: Edith Robinson
Title: President

CERTIFICATE OF LIMITED LIABILITY INTEREST

OF

TEEKAY SHUTTLE TANKERS L.L.C.

FORMED UNDER THE LAWS OF THE REPUBLIC OF THE MARSHALL ISLANDS

This Certificate evidences the ownership of TEEKAY OFFSHORE HOLDINGS L.L.C. of 100% of the limited liability company interests in TEEKAY SHUTTLE TANKERS L.L.C. (the "Company") subject to the Certificate of Formation and the Limited Liability Company Agreement of the Company.

Witness, the signature of the Company by its duly authorized member.

Dated the ____ day of July, 2017

TEEKAY SHUTTLE TANKERS L.L.C..
By: Teekay Offshore Holdings L.L.C.
its Sole Member

By: _____
Name: Edith Robinson
Title: President

For value Received, the undersigned hereby sells, assigns and transfers unto
_____ all of its limited liability company ownership interest in TEEKAY
SHUTTLE TANKERS L.L.C. as is represented by the within Certificate.

Dated:

By: _____
Authorized Person

In Presence of: _____

**PREDECESSOR TO TEEKAY SHUTTLE TANKERS L.L.C.
COMBINED CARVE-OUT FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2017
and the year ended December 31, 2016**

**INDEX TO PREDECESSOR TO TEEKAY SHUTTLE TANKERS L.L.C.
COMBINED CARVE-OUT FINANCIAL STATEMENTS**

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying combined carve-out financial statements of the Predecessor to Teekay Shuttle Tankers L.L.C. which comprise the combined carve-out balance sheets as at September 30, 2017 and December 31, 2016, the combined carve-out statements of income, changes in total equity and cash flows for the nine-month period ended September 30, 2017 and year ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Carve-out Financial Statements

Management is responsible for the preparation and fair presentation of these combined carve-out financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined carve-out 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 combined carve-out financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined carve-out financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined carve-out 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 combined carve-out financial statements referred to above present fairly, in all material respects, the combined carve-out financial position of the Predecessor to Teekay Shuttle Tankers L.L.C. as at September 30, 2017 and December 31, 2016, and the results of its combined carve-out operations and its cash flows for the nine-month period ended September 30, 2017 and year ended December 31, 2016 in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the combined carve-out financial statements which describes the basis of preparation, including the approach to and purpose for preparing them. The combined carve-out financial statements were prepared for the purpose of presenting the combined carve-out financial position of the Predecessor to Teekay Shuttle Tankers L.L.C. and the results of its combined carve-out operations and its cash flows for inclusion in Teekay Shuttle Tankers L.L.C.'s Prospectus.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

Vancouver, Canada
March 26, 2018

PREDECESSOR TO TEEKAY SHUTTLE TANKERS L.L.C. (Note 1)
COMBINED CARVE-OUT STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands of U.S. dollars)

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
Revenues (note 10)	405,962	504,032
Voyage expenses	(58,672)	(61,847)
Vessel operating expenses (note 10)	(84,520)	(113,561)
Time-charter hire expenses	(48,500)	(62,512)
Depreciation and amortization	(89,789)	(119,858)
General and administrative (note 10)	(11,941)	(9,968)
Write-down and loss on sale of vessels (note 13)	(25,231)	(2,391)
Restructuring charge (note 9)	—	(240)
Income from vessel operations	87,309	133,655
Interest expense (note 10)	(37,589)	(43,178)
Interest income	2,389	3,251
Foreign exchange gain (loss) (note 11)	4,356	(1,675)
Realized and unrealized (losses) gains on derivative instruments (note 11)	(989)	380
Other (expense) income	(275)	425
Income before income taxes	55,201	92,858
Income tax recovery (note 12)	1,263	1,605
Net income before non-controlling interest	56,464	94,463
Less: Net income attributable to non-controlling interests	(2,801)	(9,214)
Net income and comprehensive income attributable to member of Shuttle Tankers L.L.C.	53,663	85,249

Related party transactions (note 10)

The accompanying notes are an integral part of these combined carve-out financial statements.

PREDECESSOR TO TEEKAY SHUTTLE TANKERS L.L.C. (Note 1)
COMBINED CARVE-OUT BALANCE SHEETS
(in thousands of U.S. dollars)

	As at September 30, 2017	As at December 31, 2016
ASSETS		
Current		
Cash and cash equivalents	181,960	116,471
Restricted cash (note 4 and 11)	3,170	3,109
Accounts receivable, including non-trade of \$1,730 (December 31, 2016 - \$2,215)	25,986	19,961
Vessel held for sale (note 13 and 16)	5,500	—
Current portion of derivative assets (note 11)	185	119
Net investments in direct financing lease - current	791	731
Prepaid expenses	14,399	13,817
Due from affiliates (note 10e)	195,318	61,877
Total current assets	427,309	216,085
Restricted cash - long-term (note 4 and 11)	—	13,181
Vessels and equipment		
At cost, less accumulated depreciation of \$682,895 (2016 - \$677,134)	1,230,499	1,336,815
Newbuilds in progress	149,086	73,141
Investment in direct finance lease	5,302	5,339
Deferred income tax asset (note 12)	11,922	10,928
Other non-current assets	15,333	14,676
Due from affiliates (note 10e)	54,673	41,386
Goodwill (note 5)	127,113	127,113
Total assets	2,021,237	1,838,664
LIABILITIES AND MEMBERS' EQUITY		
Current		
Accounts payable	22,661	1,011
Accrued liabilities (note 6)	55,924	25,639
Current portion of deferred revenues	21,357	15,100
Current portion of derivative liabilities (note 11)	8,985	17,115
Current portion of long-term debt (note 7)	137,457	216,594
Due to affiliates (note 10e)	166,604	348,716
Total current liabilities	412,988	624,175
Long-term debt (note 7)	867,073	806,806
Derivative liabilities (note 11)	17,597	65,463
Due to affiliates (note 10e)	220,940	181,013
Other long-term liabilities	2,471	3,204
Total liabilities	1,521,069	1,680,661
Commitments and contingencies (note 15)		
Members' equity		
Non-controlling interest	59,000	53,449
Member's equity	441,168	104,554
Total members' equity	500,168	158,003
Total liabilities and members' equity	2,021,237	1,838,664

Subsequent events (notes 7, 10, 13, 15 and 16)

The accompanying notes are an integral part of these combined carve-out financial statements.

PREDECESSOR TO TEEKAY SHUTTLE TANKERS L.L.C. (Note 1)
COMBINED CARVE-OUT STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	56,464	94,463
Non-cash items:		
Unrealized gains on derivative instruments (note 11)	(55,306)	(20,331)
Depreciation and amortization	89,789	119,858
Write-down and loss on sale of vessels (note 13)	25,231	2,391
Deferred income tax recovery (note 12)	(994)	(1,615)
Unrealized foreign currency exchange loss and other	15,706	4,161
Change in non-cash working capital items related to operating activities (note 14)	36,908	6,652
Expenditures for dry docking (note 1)	(11,293)	(21,543)
Net operating cash flow	156,505	184,036
FINANCING ACTIVITIES		
Proceeds from long-term debt (note 7)	158,727	214,110
Scheduled repayments of long-term debt (note 7)	(168,712)	(158,002)
Prepayments of long-term debt (note 7)	(24,688)	(118,578)
Debt issuance cost (note 7)	(3,731)	(10,255)
Cash contributions from (distributions to) non-controlling interests	2,750	(8,750)
Decrease in restricted cash (note 4 and 11)	13,120	7,430
Net distributions to affiliates	(5,962)	(58,382)
Net financing cash flow	(28,496)	(132,427)
INVESTING ACTIVITIES		
Net payments for vessels and equipment, including advances on newbuilding contracts	(62,497)	(39,478)
Proceeds from sale of vessels and equipment	—	5,000
Direct financing lease investments	(23)	(6,070)
Net investing cash flow	(62,520)	(40,548)
Increase in cash and cash equivalents	65,489	11,061
Cash and cash equivalents, beginning of the period	116,471	105,410
Cash and cash equivalents, end of the period	181,960	116,471

Supplemental cash flow information (note 14)

The accompanying notes are an integral part of these combined carve-out financial statements.

PREDECESSOR TO TEEKAY SHUTTLE TANKERS L.L.C. (Note 1)
COMBINED CARVE-OUT STATEMENTS OF CHANGES IN TOTAL EQUITY
(in thousands of U.S. dollars)

	Non-controlling interest	Member's Equity	Total
Balance as at December 31, 2015	52,985	(77,739)	(24,754)
Net income	9,214	85,249	94,463
Distributions to non-controlling interest	(9,500)	—	(9,500)
Contribution of capital from joint venture partner	750	—	750
Net change in member's equity	—	97,044	97,044
Balance as at December 31, 2016	53,449	104,554	158,003
Net income	2,801	53,663	56,464
Distributions to non-controlling interest	(3,250)	—	(3,250)
Contribution of capital from joint venture partner	6,000	—	6,000
Net change in member's equity	—	282,951	282,951
Balance as at September 30, 2017	59,000	441,168	500,168

The accompanying notes are an integral part of these combined carve-out financial statements.

PREDECESSOR TO TEEKAY SHUTTLE TANKERS L.L.C.
NOTES TO THE COMBINED CARVE-OUT FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars)

1. Summary of Significant Accounting Policies

Basis of presentation

During July 2017, Teekay Offshore Partners L.P. (*Teekay Offshore*) formed Teekay Shuttle Tankers L.L.C., a Marshall Islands company (the *Company*). On October 3, 2017, Teekay Offshore entered into an agreement to sell five wholly-owned subsidiaries and one 50% owned subsidiary (the *subsidiaries*), which in aggregate control 35 shuttle tankers, including five shuttle tanker newbuildings and three chartered-in shuttle tankers, to the Company for a total consideration of \$577.4 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.

The accounts of the subsidiaries and any transactions specifically attributable to the subsidiaries of Teekay Offshore or any subsidiaries of Teekay Offshore, whether or not they will ultimately be contributed to the Company, are collectively referred to as *Predecessor to Teekay Shuttle Tankers L.L.C. or the Predecessor*. These combined carve-out financial statements reflect the combined carve-out financial position, results of operations and cash flows of the Predecessor to Teekay Shuttle Tankers L.L.C..

Teekay Offshore uses a centralized treasury system and, as a result, certain cash and cash equivalents attributable to the Predecessor's vessels are co-mingled with other funds in accounts that are owned by subsidiaries of Teekay Offshore other than Teekay Shuttle Tankers L.L.C. or the subsidiaries. Consequently, any cash transactions made on behalf of the subsidiaries are reflected as increases or decreases of advances from affiliates. Any cash transactions attributable to vessels that were not made on behalf of the subsidiaries are reflected as increases or decreases in member's equity. External debt financing and derivative contracts that are directly attributable to the operations of the Predecessor to Teekay Shuttle Tankers L.L.C. and interest expense related to the financing and realized and unrealized gains and losses related to the derivative contracts, are included in the combined carve-out financial statements.

Income taxes were determined based on the assumption that Teekay Offshore and its subsidiaries are separately taxable entities. This assumption implies that the current and deferred income taxes of Teekay Offshore and its subsidiaries are calculated separately and the recoverability of the deferred tax assets is also assessed accordingly.

The subsidiaries have been capitalized in part with non-interest bearing loans from Teekay Offshore and its other subsidiaries. Generally, these intercompany loans were used to partially finance the acquisition of the shuttle tankers owned by the subsidiaries. No interest expense has been allocated to the Predecessor from Teekay Offshore relating to these intercorporate loans.

In the preparation of these combined carve-out financial statements, shore-based expenses were not identifiable as relating solely to the each specific vessel. Shore-based expenses (consisting primarily of salaries, share-based compensation, and other employee-related costs, office rent, legal and professional fees, and travel and entertainment) were allocated based on the Predecessor's proportionate share of Teekay Offshore's total shuttle tanker ship-operating (calendar) days for the period presented. During the nine months ended September 30, 2017 and the year ended December 31, 2016, shore-based expenses of \$23.7 million and \$22.1 million were attributable to the Predecessor. Of these amounts, \$11.8 million and \$12.2 million of shore-based ship management costs are presented in vessel operating expenses and the remaining shore-based expenses are presented in general and administrative expenses.

The combined carve-out 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 combination. 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. In addition, estimates have been made when allocating expenses from Teekay Offshore to the Predecessor and such estimates may not be reflective of actual results in future periods.

Currency translation

The Predecessor'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 combined carve-out statements of income and comprehensive income.

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 Predecessor 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 Predecessor does not

**PREDECESSOR TO TEEKAY SHUTTLE TANKERS L.L.C.
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begin recognizing revenue until a charter has been agreed to by the customer and the Predecessor, 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 Predecessor 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 Predecessor does not recognize revenue during days that the vessel is off hire unless the contract provides for compensation while off hire.

The combined carve-out balance sheets reflect the deferred portion of revenues and expenses, which will be earned or expensed, respectively, in subsequent periods.

Operating Expenses

Voyage expenses include all expenses unique to a particular voyage, which are 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.

Cash and cash equivalents

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

Restricted Cash

The Company maintains restricted cash deposits relating to certain collateral for derivatives.

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 best estimate of the amount of probable credit losses in existing accounts receivable. The allowance is based on historical write-off experience and customer economic data. The allowance is reviewed for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged off against the allowance when the Predecessor believes that the receivable will not be recovered. There are no significant amounts recorded as allowance for doubtful accounts as at September 30, 2017 and December 31, 2016.

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 Predecessor to the standards required to properly service the Predecessor'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 Predecessor 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 Predecessor 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. The Predecessor has assessed the useful life of the tanker component as being 25 years and the shuttle component as being 20 years. The Predecessor monitors the useful life of the tanker component for vessels within the shuttle tanker segment.

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 Predecessor from operating the vessel for the estimated useful life. Depreciation of vessels and equipment for the nine months ended September 30, 2017 and year ended December 31, 2016, totaled \$89.8 million, and \$119.9 million, respectively. Depreciation and amortization includes depreciation on all owned vessels.

Interest costs capitalized to vessels and equipment for the nine months ended September 30, 2017 and year ended December 31, 2016, totaled \$6.0 million and \$3.6 million, respectively.

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Generally, the Predecessor dry docks each shuttle tanker every two and a half to five years. The Predecessor 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 Predecessor 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 nine months ended September 30, 2017 and the year ended December 31, 2016 is summarized as follows:

	Nine Months Ended	Year Ended
	September 30, 2017	December 31, 2016
	\$	\$
Balance at beginning of the year	36,266	32,336
Cost incurred for dry docking	13,714	19,046
Dry-docking amortization	(12,882)	(15,804)
Write down / sale of capitalized dry-dock expenditure	(722)	688
Balance at end of the year	<u>36,376</u>	<u>36,266</u>

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 Predecessor'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 Predecessor 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 Predecessor would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Predecessor.

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 Predecessor 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. Debt issuance costs of revolving credit facilities are amortized on a straight-line basis over the term of the relevant facility. Amortization of debt issuance costs is included in interest expense.

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 Predecessor 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 Predecessor may bypass this step and use a fair value approach to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Predecessor 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 combined carve-out 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 for hedge accounting. The Predecessor does not apply hedge accounting to its derivative instruments.

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For derivative financial instruments that are not designated or that do not qualify as accounting hedges under Financial Accounting Standards Board (or FASB) Accounting Standards Codification (or ASC) 815, Derivatives and Hedging, the changes in the fair value of the derivative financial instruments are recognized in earnings. Gains and losses from the Predecessor's non-designated foreign currency forward contracts and interest rate swaps are recorded in realized and unrealized (losses) gains on derivative instruments in the combined carve-out statements of income and comprehensive income. Gains and losses from the Predecessor's non-designated cross currency swaps are recorded in foreign exchange gain (loss) in the combined carve-out statements of income and comprehensive income.

Income taxes

The Predecessor is subject to income taxes relating to its subsidiaries in Norway, Brazil, the United Kingdom, Singapore, Canada, Luxembourg and the Netherlands. The Predecessor 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 Predecessor'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 combined carve-out financial statements based on guidance in the interpretation. The Predecessor recognizes interest and penalties related to uncertain tax positions in income tax recovery (expense) in the Predecessor's combined carve-out statements of income and comprehensive income.

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 Predecessor January 1, 2018 and will be applied as a cumulative-effect adjustment as of this date. The Predecessor expects that the adoption of ASU 2014-09 will result in a change in the method of recognizing revenue from contracts of affreightments (or CoAs) whereby revenue will be recognized over the voyage until discharge is complete, instead of over the voyage until tendering notice for the next voyage. This will result in all revenue being fully recognized upon discharge of cargo whereas currently revenue recognition extends into the period the vessel returns to the oil field. This change may result in revenue being recognized earlier, which may cause additional volatility in revenue and earnings between periods. In addition, the Predecessor expects that the adoption of ASU 2014-09 will result in a change in the method of recognizing revenue for voyage charters, whereby the Predecessor's method of determining proportional performance will change from discharge-to-discharge to load-to-discharge. This will result in no revenue being recognized from discharge of the prior voyage to loading of the current voyage and all revenue being recognized from loading of the current voyage to discharge of the current voyage. This change will result in revenue being recognized later in the voyage, which may cause additional volatility in revenue and earnings between periods. The Predecessor is in the final stages of completing its assessment of ASU 2014-09, and is focused on developing process changes, determining the transitional impact and completing other items required for the adoption of ASU 2014-09.

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. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Predecessor will early adopt to adopt ASU 2016-02 effective January 1, 2018. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Predecessor expects that the adoption of ASU 2016-02 will result in a change in accounting method for the lease portion of the daily charter hire for the Predecessor's chartered-in vessels accounted for as operating leases with firm periods of greater than one year. Under ASU 2016-02, the Predecessor will recognize a right-of-use asset and a lease liability on the balance sheet for these charters, whereas currently no right-of-use asset or lease liability is recognized. This will have the result of increasing the Predecessor's assets and liabilities. Based on the lease agreements the Predecessor has entered into on or prior to September 30, 2017, the expected increase to the Predecessor's assets and liabilities is not expected to be material. The pattern of expense recognition of chartered-in vessels is expected to remain substantially unchanged, unless the right of use asset becomes impaired. The Predecessor 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 ASU 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

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information to inform credit loss estimates. This update is effective for the Predecessor January 1, 2020, with a modified-retrospective approach. The Predecessor 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 Predecessor on January 1, 2018, with a retrospective approach. The Predecessor is currently evaluating the effect of adopting this new guidance.

3. Business Operations

Significant Customers

As at September 30, 2017, the Predecessor is engaged in the international marine transportation of crude oil through the operation of its 35 shuttle tankers, of which five are shuttle tanker newbuildings, six are owned through 50%-owned subsidiaries and three are chartered-in. The Predecessor's revenues are earned in international markets. The following table presents combined revenues for customers that accounted for more than 10% of the Predecessor's combined revenues, for its sole operating segment during the periods presented.

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
	\$	\$
Shell	85,871	126,008
Statoil	60,296	81,738
Petrobras	49,942	72,357

4. Financial Instruments

a) Fair value measurements

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

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

Due to affiliates - The fair value of the Predecessor's due to affiliates approximates their carrying amounts reported in the accompanying combined carve-out balance sheets.

Vessels and equipment and vessels held for sale - The estimated fair value of the Predecessor's vessels and equipment and vessels held for sale 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 Predecessor 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 Predecessor would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Predecessor.

Derivative instruments - The fair value of the Predecessor's derivative instruments is the estimated amount that the Predecessor 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 Predecessor and the derivative counterparties. The estimated amount is the present value of future cash flows. The Predecessor transacts all of its derivative instruments through investment-grade rated financial institutions at the time of the transaction. The Predecessor's interest rate swap agreements and foreign currency forward contracts require no collateral from these institutions; however, collateral is required by these institutions on some of the Predecessor's cross currency swap agreements and as at September 30, 2017, Teekay Offshore had pledged \$3.2 million of its cash as collateral (2016 - \$16.3 million). 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.

Long-term debt - The fair values of the Predecessor'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 Predecessor.

The Predecessor 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.

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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.

		September 30, 2017		December 31, 2016	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$	Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$
Recurring:					
Cash and cash equivalents and restricted cash	Level 1	185,130	185,130	132,761	132,761
Derivative instruments (note 11)					
Interest rate swap agreements	Level 2	—	—	(296)	(296)
Cross currency swap agreements	Level 2	(27,621)	(27,621)	(82,094)	(82,094)
Foreign currency forward contracts	Level 2	185	185	(763)	(763)
Non-Recurring:					
Vessel held for sale (note 13)	Level 2	5,500	5,500	—	—
Vessels and equipment (note 13)	Level 2	47,798	47,798	11,300	11,300
Other:					
Long-term debt - public (note 7)	Level 1	(153,210)	(156,246)	(138,820)	(128,614)
Long-term debt - non-public (note 7)	Level 2	(851,320)	(863,973)	(884,580)	(841,922)

b) Financing Receivables

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

	Credit Quality Indicator	Grade	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Direct financing lease	Payment activity	Performing	6,093	6,070

5. Goodwill

The carrying amount of goodwill for the Predecessor was \$127.1 million as at September 30, 2017 and December 31, 2016. The Predecessor conducted its annual goodwill impairment review as at October 1, 2016 and 2017 and concluded that no impairment had occurred.

6. Accrued Liabilities

	September 30, 2017 \$	December 31, 2016 \$
Voyage and vessel expenses	36,910	14,520
Audit, legal and other general expenses	968	2,530
Interest including interest rate swaps	6,213	4,262
Payroll and benefits	2,512	2,016
Income tax payable and other	9,321	2,311
	<u>55,924</u>	<u>25,639</u>

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7. Long-Term Debt

	September 30, 2017 \$	December 31, 2016 \$
U.S. Dollar-denominated Revolving Credit Facilities due through 2019	136,341	188,116
Norwegian Kroner Bonds due through 2019	155,122	141,967
U.S. Dollar-denominated Term Loans due through 2021	88,810	112,406
U.S. Dollar-denominated Term Loans due through 2023	497,089	453,701
U.S. Dollar Non-Public Bonds due 2023	140,698	143,274
Total principal	1,018,060	1,039,464
Less debt issuance costs and other	(13,530)	(16,064)
Total debt	1,004,530	1,023,400
Less current portion	(137,457)	(216,594)
Long-term portion	867,073	806,806

As at September 30, 2017, the Predecessor had two revolving credit facilities (December 31, 2016 - three), which, as at such date, provided for borrowings of up to \$136.3 million (December 31, 2016 - \$203.0 million), and were fully drawn (December 31, 2016 - undrawn balance of \$14.9 million). The total amount available under the revolving credit facilities reduces by \$17.0 million (2017), \$77.1 million (2018) and \$42.2 million (2019). The two revolving credit facilities are guaranteed by Teekay Offshore and certain of its subsidiaries for all outstanding amounts and contain covenants that require the Predecessor to maintain an amount equal to the greater of a minimum amount of liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) of at least \$75.0 million and 5.0% of Teekay Offshore's total combined debt. One revolving credit facility that, as of December 31, 2016, was guaranteed by Teekay Corporation, matured during the nine months ended September 30, 2017. The revolving credit facilities are collateralized by first-priority mortgages granted on 15 of the Predecessor's vessels, together with other related security. In October 2017, six of the Predecessor's existing debt facilities were refinanced with a new \$600 million revolving credit facility with Teekay Shuttle Tankers L.L.C. (note 16(a)).

As at September 30, 2017, the Predecessor had the following outstanding Norwegian Kroner (or NOK) senior unsecured bonds listed on the Oslo Stock Exchange:

- a) NOK 800 million in senior unsecured bonds, of which NOK 160 million was repayable in January 2018, and the remaining balance of NOK 640 million was repayable in December 2018 at 103% of the amount outstanding. The Predecessor was granted a call option, exercisable at any time, to prepay the bonds in amounts ranging from 101% to 103% of the amount of bonds outstanding depending on the timing of settlement. Interest payments on the bonds were based on NIBOR plus a margin of 5.75%. As at September 30, 2017, the carrying amount of the bonds was \$101.8 million (December 31, 2016 - \$93.1 million). During the nine months ended September 30, 2017, the holders of these bonds were provided the opportunity to elect to sell to the Predecessor their interests in the NOK 800 million senior unsecured bonds and reinvest the proceeds in new \$250 million senior unsecured bonds. Following this election, in October 2017, the Predecessor exercised its call option and refinanced the remaining outstanding balances of the bonds (Note 16(b)) and terminated the associated cross currency swaps (see note 11).
- b) NOK 420 million in senior unsecured bonds, of which NOK 180 million was repaid in October 2017 (note 16(b)) and NOK 240 million is repayable in November 2018 at 103% of the amount outstanding. The Predecessor was granted a call option, exercisable at any time, to prepay the bonds in amounts ranging from 101% to 103% of the amount of bonds outstanding depending on the timing of settlement. Interest payments on the bonds were based on NIBOR plus a margin of 5.75%. As at September 30, 2017, the carrying amount of the bonds was \$53.3 million (December 31, 2016 - \$48.9 million). During the nine months ended September 30, 2017, the holders of these bonds were provided the opportunity to elect to sell to the Predecessor their interests in the NOK 420 million senior unsecured bonds and reinvest the proceeds in new \$250 million senior unsecured bonds of Teekay Shuttle Tankers L.L.C.. Following the election, in October 2017, the Predecessor exercised its call option and refinanced the remaining outstanding balances of the bonds (note 16(b)) and terminated the associated cross currency swaps (see note 11).

As at September 30, 2017, three of the Predecessor's 50%-owned subsidiaries had a total of two outstanding term loans (December 31, 2016 - three), which in the aggregate totaled \$88.8 million (December 31, 2016 - \$112.4 million). During the nine months ended September 30, 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 are repaid 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 September 30, 2017, Teekay Offshore had guaranteed \$44.4 million (December 31, 2016 - \$25.8 million) of these term loans, which represents its 50% share of the outstanding term loans and the other owner had guaranteed the remaining \$44.4 million (December 31, 2016 - \$25.8 million).

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As at September 30, 2017, the Predecessor had term loans outstanding for seven shuttle tankers (December 31, 2016 - six shuttle tankers) and for three East Coast of Canada shuttle tanker newbuildings which totaled \$497.1 million (December 31, 2016 - \$453.7 million) in the aggregate. The other term loans are repaid with quarterly or semi-annual payments. These term loans have varying maturities through 2023 and are collateralized by first-priority mortgages on the vessels to which the loans relate, together with other related security. As at September 30, 2017, Teekay Offshore had guaranteed all of the term loans.

In September 2013 and November 2013, the Predecessor 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 Predecessor makes semi-annual repayments on the bonds and as at September 30, 2017, the carrying amount of the bonds was \$140.7 million.

Interest payments on the revolving credit facilities and the term loans are based on LIBOR plus margins. At September 30, 2017 and December 31, 2016, the margins ranged between 0.30% and 4.75%, and 0.30% and 3.50%, respectively. The weighted-average effective interest rate on the Predecessor's variable rate long-term debt as at September 30, 2017 was 3.2% (December 31, 2016 - 2.5%). This rate does not include the effect of the Predecessor's interest rate swaps (see note 10).

The aggregate annual long-term debt principal repayments required to be made subsequent to September 30, 2017 are \$31.0 million (remainder of 2017), \$158.4 million (2018), \$144.9 million (2019), \$143.8 million (2020), \$163.9 million (2021), and \$376.1 million (thereafter).

Obligations under the Predecessor's credit facilities are secured by certain vessels, and if the Predecessor is unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets. The Predecessor has two revolving credit facilities and two term loans that require the Predecessor 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 Predecessor 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 Predecessor's option. As at September 30, 2017, these ratios were estimated to range from 180% to 382% and the Predecessor 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 Predecessor based on second-hand sale and purchase market data. Changes in the shuttle tanker market could negatively affect these ratios.

8. Leases

Charters-out

Time charters and bareboat charters of the Predecessor's vessels to customers are accounted for as operating leases. The cost, accumulated depreciation and carrying amount of the vessels accounted for as operating leases at September 30, 2017 were \$1.4 billion, \$0.5 billion and \$0.9 billion, respectively. As at September 30, 2017, minimum scheduled future revenues under these then in place time charters and bareboat charters to be received by the Predecessor, were approximately \$2.2 billion, comprised of \$78.2 million (2017), \$301.6 million (2018), \$267.6 million (2019), \$248.5 million (2020), \$238.7million (2021), and \$1.1 billion (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 September 30, 2017, revenue from unexercised option periods of contracts that existed on September 30, 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 direct financing leases. As at September 30, 2017, the minimum lease payments receivable under the direct financing leases approximated \$7.4 million (December 31, 2016 - \$8.4 million), including unearned income of \$1.9 million (December 31, 2016 - \$2.4 million). As at September 30, 2017, future scheduled payments under the direct financing leases to be received by the Predecessor, were approximately \$7.4 million comprised of \$0.3 million (2017), \$1.3 million (2018), \$1.3 million (2019), \$1.3 million (2020), \$1.3 million (2021) and \$1.9 million (thereafter).

Charters-in

As at September 30, 2017, minimum commitments owing by the Predecessor under vessel operating leases by which the Predecessor charters-in vessels were approximately \$58.7 million, comprised of \$9.7 million (2017), \$35.5 million (2018) and \$13.5 million (2019). The Predecessor 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.

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9. Restructuring Charge

During the year ended December 31, 2016, the Predecessor recognized a restructuring charge of \$0.2 million, mainly relating to the change of crew on a shuttle tanker which is expected to result in lower costs going forward.

10. Related Party Transactions

- a) During the nine months ended September 30, 2017 and the year ended December 31, 2016, two shuttle tankers of the Predecessor were employed on long-term time-charter-out or bareboat contracts with subsidiaries of Teekay Corporation.
- b) In June 2015, the Predecessor 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. The Predecessor entered into 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 early-2018 (see note 15a). The Predecessor has received project management and engineering services from certain subsidiaries of Teekay Corporation relating to the construction of these shuttle tankers. The costs for these services are capitalized and included as part of newbuilds in progress and are reclassified to vessels and equipment upon delivery of the vessels. Project management and engineering costs paid to Teekay Corporation subsidiaries amounted to \$3.4 million during the nine months ended September 30, 2017 (year ended December 31, 2016 - \$2.2 million).
- c) In June 2016, as part of various other financing initiatives, Teekay Corporation agreed to provide financial guarantees for the Predecessor's liabilities associated with the long-term debt financing relating to the East Coast of Canada newbuilding shuttle tankers until their deliveries, which are expected to be in the third quarter of 2017 through the first half of 2018 (see note 15a). During the nine months ended September 30, 2017, a guarantee fee of \$0.1 million (for the year ended December 31, 2016 - \$0.1 million) was recognized in interest expense on the Predecessor's combined carve-out statements of income and comprehensive income, which represents the estimated fee a third party would charge to provide such financial guarantees. Effective September 25, 2017, Teekay Offshore secured the release, for fees to the applicable counterparties, of all of these financial guarantees provided by Teekay Corporation relating to the Predecessor's interest rate swap, cross currency swap agreements and East Coast of Canada financing.
- d) Teekay Corporation and its wholly-owned subsidiaries provide substantially all of the Predecessor's commercial, technical, crew training, strategic, business development and administrative service needs. Such related party transactions were as follows for the periods indicated:

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Revenues ⁽¹⁾	29,592	24,156
Vessel operating expenses ⁽²⁾	11,812	12,219
General and administrative ⁽³⁾	6,742	4,643
Interest expense ⁽⁴⁾	141	44

- (1) Includes revenues from time-charter-out or bareboat 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
 - (4) Includes a guarantee fee related to the Predecessor's liabilities associated with the long-term debt financing relating to the East Coast of Canada shuttle tanker newbuildings.
- e) At September 30, 2017, due from affiliates totaled \$250.0 million (December 31, 2016 - \$103.3 million) and due to affiliates totaled \$387.5 million (December 31, 2016 - \$529.7 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 Predecessor uses derivatives to manage certain risks in accordance with its overall risk management policies.

Foreign Exchange Risk

The Predecessor economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts. The Predecessor has not designated, for accounting purposes, any of the foreign currency forward contracts held during the nine months ended September 30, 2017 and the year ended December 31, 2016, as cash flow hedges.

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As at September 30, 2017, the Predecessor was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (in thousands)	Fair Value / Carrying Amount of Asset/(Liability) (in thousands of U.S. Dollars)	Average Forward Rate⁽¹⁾	Expected Maturity	
				2017	2018
				(in thousands of U.S. Dollars)	
Norwegian Kroner	40,000	185	8.30	2,974	1,845

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

In connection with its issuance of NOK bonds, the Predecessor entered into cross currency swaps pursuant to which it receives the principal amount in NOK on the repayment and maturity dates, in exchange for payments of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and repayments of principal amounts of the Predecessor's NOK bonds due through 2019 (see note 7). In addition, the cross currency swaps economically hedge the interest rate exposure on the NOK bonds. The Predecessor has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK bonds. In September 2017, the Predecessor partially settled certain of these cross currency swaps and incurred a realized loss during the nine months ended September 30, 2017, which is included in foreign currency exchange (loss) gain in the combined carve-out statements of income and comprehensive income.

As at September 30, 2017, the Predecessor was committed to the following cross currency swaps:

Floating Rate Receivable

Notional Amount NOK (thousands)	Principal Amount USD (thousands)	Reference Rate	Margin	Fixed Rate Payable	Fair Value / Asset (Liability) \$	Remaining Term (years)
224,970 ⁽¹⁾⁽²⁾⁽³⁾	38,002	NIBOR	5.75%	8.84%	(10,852)	1.2
283,100 ⁽¹⁾⁽²⁾⁽⁴⁾	50,794	NIBOR	5.75%	7.58%	(16,769)	1.3
<u>508,070</u>	<u>88,796</u>				<u>(27,621)</u>	

(1) Notional amount reduces equally with NOK bond repayments (see note 7).

(2) These swaps were partially settled during the nine months ended September 30, 2017. The remaining amounts of the swaps were settled in October 2017 (see note 16b).

(3) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 3.9 million for \$0.7 million (see note 7).

(4) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 6.8 million for \$1.2 million (see note 7).

As at September 30, 2017, the Partnership had \$3.2 million on deposit with the relevant counterparties as security for cross currency swap liabilities (December 31, 2016 - \$16.3 million). The deposit is presented in Restricted cash and Restricted cash - long-term on the combined carve-out balance sheets.

Interest Rate Risk

The Predecessor enters into interest rate swaps, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Predecessor's exposure to interest rate variability on its outstanding floating-rate debt. During the year ended December 31, 2016, the Predecessor was committed to interest rate swaps which matured during the nine months ended September 30, 2017.

As at September 30, 2017, the Predecessor was not committed to any interest rate swap agreements.

Tabular disclosure

The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Predecessor's combined carve-out balance sheets.

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	Current portion of derivative assets \$	Other non- current assets \$	Accrued liabilities \$	Current portion of derivative liabilities \$	Derivative liabilities \$
As at September 30, 2017					
Foreign currency contracts	185	—	—	—	—
Cross currency swaps	—	—	(1,039)	(8,985)	(17,597)
Interest rate swaps	—	—	—	—	—
	<u>185</u>	<u>—</u>	<u>(1,039)</u>	<u>(8,985)</u>	<u>(17,597)</u>
As at December 31, 2016					
Foreign currency contracts	119	—	—	(780)	(102)
Cross currency swaps	—	—	(1,375)	(15,358)	(65,361)
Interest rate swaps	—	758	(77)	(977)	—
	<u>119</u>	<u>758</u>	<u>(1,452)</u>	<u>(17,115)</u>	<u>(65,463)</u>

Total realized and unrealized (losses) gains 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 (losses) gains on derivative instruments in the combined carve-out statements of income and comprehensive income. The effect of the (losses) gains on these derivatives in the combined carve-out statements of income and comprehensive income for the nine months ended September 30, 2017 and the year ended December 31, 2016 are as follows:

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Realized (losses) gains on derivative instruments		
Interest rate swaps	(2,353)	(4,953)
Foreign currency forward contracts	197	(3,386)
	<u>(2,156)</u>	<u>(8,339)</u>
Unrealized gains on derivative instruments		
Interest rate swaps	219	4,118
Foreign currency forward contracts	948	4,601
	<u>1,167</u>	<u>8,719</u>
Total realized and unrealized (losses) gains on derivative instruments	<u>(989)</u>	<u>380</u>

Total realized and unrealized gains (losses) on cross currency swaps are recognized in earnings and reported in foreign currency exchange gain (loss) in the combined carve-out statements of income and comprehensive income. The effect of the gains (losses) on cross currency swaps in the combined carve-out statements of income and comprehensive income for the nine months ended September 30, 2017 and year ended December 31, 2016 are as follows:

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Realized losses	(45,241)	(16,105)
Unrealized gains	54,139	11,612
Total realized and unrealized gains (losses) on cross currency swaps	<u>8,898</u>	<u>(4,493)</u>

The Predecessor 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 Predecessor 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.

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12. Income Taxes

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

	September 30, 2017 \$	December 31, 2016 \$
Deferred tax assets:		
Tax losses carried forward ⁽¹⁾	37,152	34,721
Other	—	—
Total deferred tax assets	37,152	34,721
Deferred tax liabilities		
Vessels and equipment	4,710	4,544
Long-term debt	1,594	1,197
Other	—	1,051
Total deferred tax liabilities	6,304	6,792
Net deferred tax assets	30,848	27,929
Valuation allowance	(18,926)	(17,001)
Net deferred tax assets	11,922	10,928

(1) As at September 30, 2017, the income tax losses carried forward of \$143.7 million (December 31, 2016 - \$135.0 million) are available to offset future taxable income in the applicable jurisdictions, and can be carried forward indefinitely.

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

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Current	269	(10)
Deferred	994	1,615
Income tax recovery	1,263	1,605

The Predecessor operates in countries that have differing tax laws and rates. Consequently, a combined 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:

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Net income before taxes	55,201	92,858
Net income not subject to taxes	(54,536)	(48,245)
Net income subject to taxes	665	44,613
At applicable statutory tax rates	(4,767)	5,997
Permanent differences	(7,102)	(9,787)
Adjustments related to currency differences	10,564	(2,523)
Valuation allowance and other	42	4,708
Income tax recovery related to current period	(1,263)	(1,605)

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The following is a tabular reconciliation of the Predecessor's total amount of unrecognized tax benefits at the beginning and end of the nine months ended September 30, 2017, and year ended December 31, 2016:

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Balance of unrecognized tax benefits as at beginning of the period	350	3,726
Decreases for positions related to prior period	(350)	(3,376)
Balance of unrecognized tax benefits as at end of the period	<u>—</u>	<u>350</u>

The Predecessor does not presently anticipate such uncertain tax positions will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected. The tax years 2010 through 2017 remain open to examination by the taxing jurisdictions in which the Predecessor is subject to tax.

The interest and penalties on unrecognized tax benefits included in the tabular reconciliation above are not material.

13. Write-down and Loss on Sale of Vessels

During the nine months ended September 30, 2017, the carrying value of the *Nordic Brasilia* and *Nordic Rio* shuttle tankers were written down to their estimated fair values, using appraised values, as a result of a change in the operating plans for these vessels, due to the redelivery of these vessels from their charterer after completing their bareboat charter contracts in July 2017 and a resulting change in expectations for the future opportunities for the vessels. The Predecessor's combined carve-out statement of income for the nine months ended September 30, 2017 includes a \$20.1 million write-down related to these vessels, of which \$10.8 million is included in a 50%-owned subsidiary of the Predecessor.

During the nine months ended September 30, 2017, the carrying value of the *Navion Marita* shuttle tanker was written down to its estimated fair value, using an appraised value, as a result of the expected sale of the vessel and the vessel was classified as held for sale on the Predecessor's combined carve-out balance sheet as at September 30, 2017. The Predecessor's combined carve-out statement of income for the nine months ended September 30, 2017 includes a \$5.1 million write-down related to this vessel. The vessel was sold in the fourth quarter of 2017 (see note 16). During 2016, the same vessel was written down to its estimated fair value, using an appraised value, as a result of fewer opportunities to trade the vessel in the spot conventional tanker market. The Predecessor's combined carve-out statement of income for the year ended December 31, 2016, includes a \$2.1 million write-down related to this vessel.

In 2016, the Predecessor sold a 1992-built shuttle tanker, the *Navion Torinita*, for net proceeds of \$5.0 million, which was the approximate carrying value of the vessel at the time of sale.

14. Supplemental Cash Flow Information

- a) The changes in non-cash working capital items related to operating activities for the nine months ended September 30, 2017 and year ended December 31, 2016 are as follows:

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Accounts receivable	(6,025)	2,079
Prepaid expenses	(582)	5,083
Accounts payable and accrued liabilities	43,520	(510)
Other	(5)	—
	<u>36,908</u>	<u>6,652</u>

- b) Cash interest paid during the nine months ended September 30, 2017 and year ended December 31, 2016 totaled \$30.1 million and \$47.5 million, respectively.

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15. Commitments and Contingencies

- a) In June 2015, the Predecessor 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 Predecessor. One of these vessels was replaced by one of the Predecessor's existing shuttle tankers, the *Navion Hispania*, during the third quarter of 2015. The Predecessor entered into contracts to construct three Suezmax DP2 shuttle tanker newbuildings for an aggregate fully built-up cost of approximately \$370 million. These vessels will replace 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 Predecessor in October 2017 and November 2017, respectively, and the remaining vessel is scheduled for delivery in early-2018. As at September 30, 2017, payments made towards these commitments totaled \$137.1 million and the remaining payments required to be made under these newbuilding contracts were \$162.3 million (remainder of 2017) and \$70.4 million (2018). The Predecessor secured long-term debt financing of \$250 million to finance the newbuilding installments, of which \$154.1 million was undrawn as at September 30, 2017.
- b) In July 2017, the Predecessor entered into shipbuilding contracts with Samsung Heavy Industries Co., Ltd. (or *Samsung*) to construct two Suezmax DP2 shuttle tanker newbuildings, for an aggregate fully built-up cost of approximately \$300 million, with options to order up to two additional vessels. These newbuilding vessels will be constructed based on the Predecessor's 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 Predecessor's existing master agreement with Statoil, which will add vessel capacity to service the Predecessor's CoA portfolio in the North Sea. As at September 30, 2017, the Predecessor accrued \$12.0 million towards these commitments and the remaining payments required to be made under these newbuilding contracts were \$56.8 million (2018), \$135.7 million (2019) and \$96.0 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 March 26, 2018, the date the financial statements were available for issuance.

- a) In October 2017, six of the Predecessor's existing debt facilities were refinanced with a new \$600 million, five-year revolving credit facility. The revolving credit facility is guaranteed by Teekay Shuttle Tankers L.L.C. for all outstanding amounts and contained covenants that require the Company to maintain a minimum liquidity of \$35.0 million and 5.0% of the Company's total combined debt, maintain a minimum historical EBITDA to total interest expense ratio of 1.20 and maintain a net debt to total capitalization ratio of no more than 75%. The revolving credit facility is collateralized by first-priority mortgages granted on 17 of the Company's vessels, together with other related security. In addition, an existing \$250.0 million debt facility secured by the three East Coast of Canada newbuildings, an existing \$140.7 million private placement bond secured by two shuttle tankers and a \$71.2 million facility secured by two 50%-owned shuttle tankers, were transferred from Teekay Offshore.
- b) In October 2017, the Company completed an offering of \$250 million of new senior unsecured bonds (or ShuttleCo Bonds) in the Norwegian bond market. The bonds bear interest at a fixed rate of 7.125% and mature in August 2022. The Company expects the bonds to be listed on the Oslo stock exchange in early-2018. In August 2017, NOK bond holders elected to have the Predecessor purchase approximately NOK 195 million of the previously outstanding NOK 420 million bonds and approximately NOK 517 million of the previously outstanding NOK 800 million bond and reinvest the proceeds into ShuttleCo Bonds. Using the proceeds from the issuance of the ShuttleCo Bonds, the Predecessor exercised its call option relating to certain NOK bonds and on November 16, 2017, repurchased the remaining outstanding balances under each of its NOK 420 million and NOK 800 million bonds, which was approximately NOK 225 million and NOK 283 million, respectively. In October 2017, the Predecessor terminated the cross currency swaps associated with these NOK bonds.
- c) In late-November 2017, the Predecessor declared the options with Samsung for the construction of two additional, Suezmax-sized, DP2 shuttle tanker newbuildings for a total fully-built-up cost of approximately \$289 million. These options formed part of the original contract signed with Samsung in July 2017 and the two vessels are scheduled for delivery in 2020.
- d) The *Navion Marita* was sold during the fourth quarter of 2017 for gross proceeds of \$5.7 million resulting in a loss on sale of approximately \$0.2 million recorded during the fourth quarter of 2017.