UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

TEEKAY SHUTTLE TANKERS L.L.C.

Interim report for the three months ended March 31, 2019

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Introduction

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

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

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

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

The Company's principal executive office is at 4th Floor, Belvedere Building, 69 Pitts Road, Hamilton, HM 08, Bermuda. As of March 31, 2019, the Company's fleet consisted of 33 shuttle tankers, including six newbuilding vessels under construction and two in-chartered shuttle tankers. Of the 31 owned shuttle tankers, 27 are held by wholly-owned subsidiaries and four are owned through 50%-owned subsidiaries.

Management Discussion and Analysis

As at March 31, 2019, the Group's fleet consisted of 26 shuttle tankers that operate under fixed-rate CoAs, time charters and bareboat charters, one vessel that is currently in lay-up, and six shuttle tanker newbuildings. Of these 33 shuttle tankers, four were owned through 50%-owned subsidiaries and two were chartered-in. The remaining vessels are owned 100% within the Group. The six shuttle tanker newbuildings are expected to be delivered in late-2019 through early-2021. Subsequent to March 31, 2019, a subsidiary of the Group sold one shuttle tanker that was in lay-up for an expected gain on sale of approximately $1 million. The Group's operating shuttle tankers, with the exception of two shuttle tankers that are currently trading as conventional tankers, provide transportation services to energy companies in the North Sea, Brazil, and the East Coast of Canada. The Group's shuttle tankers occasionally service the conventional spot tanker market. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Euro and Brazilian Real may result in significant decreases or increases, respectively, in the Group's vessel operating expenses.

A shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning (or *DP*) 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.

Operating Results

The following tables present certain of our consolidated operating results for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,		
(in thousands of U.S. Dollars, except percentages and per unit data)	**2019**	**2018**	**% Change**
Revenues	137,337	141,987	(3.3)
Operating income (loss)	38,145	(5,935)	742.7
Net income (loss)	18,730	(35,476)	152.8

Operating income (loss). Operating income was $38 million for the three months ended March 31, 2019, compared to a loss of $6 million for the same period last year. The increase is primarily due to:

- a $28 million write down of two vessels during the three months ended March 31, 2018;

- a $7 million decrease in vessel operating expenses mainly due to the sale of three vessels during 2018, non-recurring repair and maintenance expenses incurred during the three months ended March 31, 2018 for the *Nordic Brasilia* and *Nordic Rio* following their redelivery to the Group by their charterer in 2017 and lower ship management expenses; and

- a $6 million decrease in depreciation and amortization due to the sale of three vessels during 2018.

Net income (loss). Net income was $20 million for the three months ended March 31, 2019, compared to a net loss of $35 million for the same period last year. The increase in net income was primarily due to the $44 million increase in operating income, as described above, and an $11 million decrease in income tax expense, as described below.

Other Operating Results

Interest Expense. Interest expense was $18 million for the three months ended March 31, 2019, consistent compared to the same period last year.

Realized and unrealized (loss) gain on derivative instruments. Net realized and unrealized (loss) gain on non-designated derivative instruments was $(1) million for the three months ended March 31, 2019, compared to $2 million for the same period last year. These totals are comprised of net losses on interest rate swaps of $1 million for the three months ended March 31, 2019 and net gains on foreign currency forward contracts of $2 million for the three months ended March 31, 2018.

Income Tax Expense. Income tax expense was $1 million for the three months ended March 31, 2019, compared to $12 million for the same period last year. The decrease in income tax expense was primarily due to an increase in the valuation allowance, during the three months ended March 31, 2018, on certain Norwegian tax assets due to changes in the assumptions for future taxable income.

Financial Condition and Liquidity

As at March 31, 2019, the Group had a working capital surplus of $42 million, compared to a working capital deficit of $22 million at December 31, 2018. The Group's primary liquidity needs for the remainder of 2019 are to pay existing, committed capital expenditures, to make scheduled repayments of debt, to pay debt service costs, to pay operating expenses and dry-docking expenditures and to fund general working capital requirements. As at March 31, 2019, the Group's total future contractual obligations for vessel newbuildings were estimated to be $719.9 million, consisting of $240.4 million (remainder of 2019), $402.0 million (2020), and $77.5 million (2021) related to six shuttle tanker newbuildings. During 2018, the Company secured a debt facility providing total borrowings of up to $60.5 million for the newbuilding payments, which was fully drawn as at March 31, 2019. In April 2019, the Company secured a term loan totaling $413.8 million related to the first four shuttle tanker newbuilding vessels and expects to secure long-term debt financing related to the remaining two shuttle tanker newbuilding vessels during 2019. In May 2019, the Company secured a revolving credit facility totaling $450 million for 16 shuttle tankers due through 2024 which will be used to refinance the existing revolving credit facility due through 2022.

Strategy and Outlook

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

Director's Responsibility Statement

I confirm, to the best of my knowledge, that the unaudited consolidated interim financial statements for the three months ended March 31, 2019, which are prepared in accordance with the United States generally accepted accounting principles gives a true and fair view of the Company's consolidated assets, liabilities, financial position and results of operations and the MD&A includes a fair review of the development and performance of the business and the position of the issuer and the Company taken as a whole, together with a description of the principal risks and uncertainties that it face under Norwegian Securities Trading Act sections 5-6 fourth paragraph and contain relevant information on major related party transactions.

Hamilton, Bermuda
May 28, 2019

/s/ Edith Robinson

Edith Robinson
Sole Director

TEEKAY SHUTTLE TANKERS L.L.C.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands of U.S. dollars)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	$	$
Revenues *(notes 4 and 7)*	137,337	141,987
Voyage expenses	(20,926)	(26,886)
Vessel operating expenses *(note 7)*	(30,460)	(37,837)
Time-charter hire expenses	(8,790)	(8,569)
Depreciation and amortization	(35,482)	(41,062)
General and administrative *(note 7)*	(3,534)	(5,040)
Write-down of vessels *(note 10)*	—	(28,528)
Operating income (loss)	**38,145**	**(5,935)**
Interest expense *(notes 5 and 8)*	(18,080)	(17,680)
Interest income	497	211
Realized and unrealized (loss) gain on derivative instruments *(note 8)*	(631)	1,509
Foreign currency exchange loss	(395)	(1,505)
Other income (expense) - net	20	(65)
Income (loss) before income tax expense	**19,556**	**(23,465)**
Income tax expense *(note 9)*	(826)	(12,011)
Net income (loss)	**18,730**	**(35,476)**
Non-controlling interests in net income (loss)	159	(7,935)
Net income (loss) attributable to member of Teekay Shuttle Tankers L.L.C.	**18,571**	**(27,541)**

Related party transactions *(note 7)*

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

TEEKAY SHUTTLE TANKERS L.L.C.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of U.S. dollars)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	$	$
Net income (loss)	18,730	(35,476)
Other comprehensive income:		
Other comprehensive income before reclassifications		
Unrealized gain on qualifying cash flow hedging instruments *(note 8)*	—	1,781
Accounts reclassified from accumulated other comprehensive income		
To interest expense:		
Realized (gain) loss on qualifying cash flow hedging instruments *(note 8)*	(133)	100
Other comprehensive (loss) income	(133)	1,881
Comprehensive income (loss)	18,597	(33,595)
Non-controlling interests in comprehensive income (loss)	159	(7,935)
Member's interest in comprehensive income (loss)	18,438	(25,660)

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

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

	As at March 31, 2019 $	As at December 31, 2018 $
ASSETS		
Current		
Cash and cash equivalents	94,625	98,000
Restricted cash	2,491	1,200
Accounts receivable, including non-trade of $437 (December 31, 2018 - $697)	17,063	28,412
Vessels held for sale *(note 10)*	8,000	8,000
Current portion of derivative assets *(note 8)*	324	608
Net investment in direct financing lease - current *(note 3b)*	881	858
Prepaid expenses	11,767	14,821
Due from related parties *(note 7)*	135,086	137,379
Other current assets *(note 4)*	3,481	5,143
Total current assets	**273,718**	**294,421**
Vessels and equipment		
At cost, less accumulated depreciation of $752,203 (December 31, 2018 - $716,721)	1,327,332	1,360,313
Advances on newbuilding contracts *(note 11)*	140,781	73,713
Net investment in direct finance lease *(note 3b)*	3,609	3,935
Derivative assets *(note 8)*	178	935
Other non-current assets *(notes 2, 4 and 6)*	36,086	30,238
Goodwill	127,113	127,113
Total assets	**1,908,817**	**1,890,668**
LIABILITIES AND EQUITY		
Current		
Accounts payable	3,796	5,037
Accrued liabilities	24,080	31,906
Deferred revenues *(note 4)*	13,912	10,741
Due to related parties *(note 7)*	100,204	124,721
Current portion of derivative instruments *(note 8)*	1,397	2,036
Current portion of long-term debt *(note 5)*	82,535	142,456
Other current liabilities *(notes 2 and 6)*	5,586	—
Total current liabilities	**231,510**	**316,897**
Long-term debt *(note 5)*	1,116,321	1,045,200
Derivative instruments *(note 8)*	—	270
Other long-term liabilities *(notes 2, 4 and 6)*	21,076	19,738
Total liabilities	**1,137,397**	**1,382,105**
Commitments and contingencies *(note 11)*		
Equity		
Paid-in capital	499,880	484,880
Retained earnings (accumulated deficit)	2,254	(16,317)
Accumulated other comprehensive income	2,649	2,782
Member's equity	**504,783**	**471,345**
Non-controlling interest	35,127	37,218
Total equity	**539,910**	**508,563**
Total liabilities and total equity	**1,908,817**	**1,890,668**

Subsequent events *(note 12)*
The accompanying notes are an integral part of the unaudited consolidated financial statements.

Hamilton, Bermuda
May 28, 2019

/s/ Edith Robinson

Edith Robinson
Sole Director

TEEKAY SHUTTLE TANKERS L.L.C.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	$	$
Cash, cash equivalents and restricted cash provided by (used for)		
OPERATING ACTIVITIES		
Net income (loss)	18,730	(35,476)
Adjustments to reconcile net income (loss) to net operating cash flow:		
Unrealized loss (gain) on derivative instruments *(note 8)*	130	(1,413)
Depreciation and amortization	35,482	41,062
Write-down of vessels *(note 10)*	—	28,528
Deferred income tax expense *(note 9)*	—	11,943
Direct financing lease payments received	303	—
Expenditures for dry docking	(3,183)	(4,375)
Other	2,470	(1,487)
Change in non-cash working capital items related to operating activities	(11,569)	10,607
Net operating cash flow	42,363	49,389
FINANCING ACTIVITIES		
Proceeds from long-term debt *(note 5)*	40,356	73,884
Scheduled repayments of long-term debt *(note 5)*	(30,697)	(33,287)
Debt issuance costs *(note 5)*	—	(5,776)
Cash contributions from member	15,000	—
Cash distributions paid by subsidiaries to non-controlling interests	(2,250)	—
Net financing cash flow	22,409	34,821
INVESTING ACTIVITIES		
Net payments for vessels and equipment, including advances on newbuilding contracts	(66,856)	(87,342)
Direct financing lease payments received	—	28
Net investing cash flow	(66,856)	(87,314)
Decrease in cash, cash equivalents and restricted cash	(2,084)	(3,104)
Cash, cash equivalents and restricted cash, beginning of the period	99,200	96,314
Cash, cash equivalents and restricted cash, end of the period	97,116	93,210

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

TEEKAY SHUTTLE TANKERS L.L.C.
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
(in thousands of U.S. dollars)

	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total
	$	$	$	$	$
Balance as at December 31, 2017	483,879	(5,492)	441	54,056	532,884
Net loss	—	(27,541)	—	(7,935)	(35,476)
Other comprehensive income *(note 8)*	—	—	1,881	—	1,881
Change in accounting policy	—	12,795	—	—	12,795
Balance as at March 31, 2018	483,879	(20,238)	2,322	46,121	512,084
Balance as at December 31, 2018	484,880	(16,317)	2,782	37,218	508,563
Net income	—	18,571	—	159	18,730
Other comprehensive loss *(note 8)*	—	—	(133)	—	(133)
Contribution of capital from Teekay Offshore Holdings L.L.C.	15,000	—	—	—	15,000
Distributions to non-controlling interest	—	—	—	(2,250)	(2,250)
Balance as at March 31, 2019	499,880	2,254	2,649	35,127	539,910

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

1. Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018, which are included in the Company's Annual Report, filed with the Oslo Bors on April 10, 2019. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments, which are solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, changes in total equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Historically, the utilization of shuttle tankers in the North Sea is higher in the winter months as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to the Company's vessels and the offshore oil platforms. Downtime for repairs and maintenance generally reduces oil production and, thus, transportation requirements. Intercompany balances and transactions have been eliminated upon consolidation.

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

2. Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (or *FASB*) issued Accounting Standards Update 2016-02, *Leases* (or *ASU 2016-02*). ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For lessees, leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 requires lessors to classify leases as a sales-type, direct financing, or operating lease. A lease is a sales-type lease if any one of five criteria are met, each of which indicate that the lease, in effect, transfers control of the underlying asset to the lessee. If none of those five criteria are met, but two additional criteria are both met, indicating that the lessor has transferred substantially all of the risks and benefits of the underlying asset to the lessee and a third party, the lease is a direct financing lease. All leases that are not sales-type leases or direct financing leases are operating leases. ASU 2016-02 was effective January 1, 2019, with early adoption permitted. FASB issued an additional accounting standards update in July 2018 that made further amendments to accounting for leases, including allowing the use of a transition approach whereby a cumulative effect adjustment is made as of the effective date, with no retrospective effect. The Company has elected to use this new optional transition approach. The Company adopted ASU 2016-02 on January 1, 2019. To determine the cumulative effect adjustment, the Company has not reassessed whether any expired or existing contracts are, or contain leases, has not reassessed lease classification, and has not reassessed initial direct costs for any existing leases. The adoption of ASU 2016-02 has resulted in a change in the accounting method for the lease portion of the daily charter hire for the Company's chartered-in vessels accounted for as operating leases with firm periods of greater than one year. As of January 1, 2019, the Company had two in-chartered vessels in its fleet, the accounting for one of which will be impacted by the adoption of ASU 2016-02 as well as a small number of office leases. Under ASU 2016-02, the Company has recognized a right-of-use asset and a lease liability on the balance sheet for one chartered-in vessel and office leases based on the present value of future minimum lease payments, whereas previously no right-of-use asset or lease liability was recognized. The right of use asset and lease liability recognized on January 1, 2019 and March 31, 2019 was $9.7 million and $7.0 million, respectively. As at March 31, 2019, the right of use asset is included in Other assets, and the lease liability in Other current liabilities and Other long-term liabilities on the Company's unaudited consolidated balance sheet. The pattern of expense recognition of chartered-in vessels is expected to remain substantially unchanged, unless the right of use asset becomes impaired. In addition, under ASU 2016-02, direct financing lease payments received have been presented as an operating cash inflow instead of an investing cash inflow in the statement of cash flows. Direct financing lease payments received during the three months ended March 31, 2019 were $0.3 million. The Company's contracts of affreightment, time charters, and voyage charters include both a lease component, consisting of the lease of the vessel, and non-lease component, consisting of operation of the vessel for the customer. The Company has elected to not separate the non-lease component from the lease component for all such charters, where the lease component is classified as an operating lease, and account for the combined components as an operating lease.

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

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

3. Financial Instruments

a) Fair value measurements

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see note 4 in the Company's audited consolidated financial statements filed with its Annual Report for the year ended December 31, 2018. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring basis, as well as the estimated fair value of the Company's financial instruments that are not accounted for at fair value on a recurring basis:

		March 31, 2019		December 31, 2018	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $
Recurring:					
Cash, cash equivalents and restricted cash	Level 1	97,116	97,116	99,200	99,200
Derivative instruments *(note 8)*					
Interest rate swap agreements	Level 2	502	502	1,543	1,543
Foreign currency forward contracts	Level 2	(1,397)	(1,397)	(2,306)	(2,306)
Other:					
Long-term debt, including current portion - public *(note 5)*	Level 1	(247,580)	(244,913)	(247,403)	(231,935)
Long-term debt, including current portion - non-public *(note 5)*	Level 2	(951,276)	(975,687)	(940,253)	(965,714)

b) Financing Receivables

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

	Credit Quality Indicator	Grade	March 31, 2019 $	December 31, 2018 $
Direct financing lease	Payment activity	Performing	4,490	4,793

4. Revenues

The Company's primary source of revenues is chartering its shuttle tankers to its customers. The Company utilizes three primary forms of contracts, consisting of CoA's, time-charter contracts, bareboat charter contracts and voyage charter contracts. During the three months ended March 31, 2019, the Company also generated revenues from the operation of volatile organic compounds (or *VOC*) systems on eight of the Company's shuttle tankers. For a description of these contracts, see Note 5 in the Company's audited consolidated financial statements filed with its Annual Report for the year ended December 31, 2018.

The following table contains the Company's revenues for the three months ended March 31, 2019 and 2018, by contract type:

	Three Months Ended March 31, 2019 $	Three Months Ended March 31, 2018 $
Contracts of affreightment	47,785	45,176
Time charters	72,866	76,134
Bareboat charters	8,843	12,731
Voyage charters	6,230	5,762
Management fees and other	1,613	2,184
	137,337	141,987

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

The following contains the Company's revenue by lease and non-lease contracts for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	$	$
Lease revenue		
Lease revenue from lease payments of direct financing and sales type leases	122	143
Lease revenue from lease payments of operating leases	135,602	139,660
	135,724	139,803
Non-lease revenue		
Management fees and other	1,613	2,184
Total	137,337	141,987

Contract Assets and Liabilities

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

	March 31, 2019	December 31, 2018
	$	$
Contract Assets		
Current	3,402	4,884
Non-Current	14,025	14,472
	17,427	19,356
Contract Liabilities		
Current	500	500
Non-Current	1,729	1,854
	2,229	2,354

During the three months ended March 31, 2019, the Company recognized revenue of $0.1 million (three months ended March 31, 2018 - $0.1 million) that was included in contract liabilities on December 31, 2018.

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

5. Long-Term Debt

	March 31, 2019	December 31, 2018
	$	$
Revolving Credit Facility due through 2022	450,000	475,000
Term Loan due through 2021	51,782	55,018
Term Loans due through 2030	341,567	303,672
Non-Public Bonds due 2024	123,938	123,938
Public Bonds due 2022	250,000	250,000
Total principal	1,217,287	1,207,628
Less debt issuance costs and other	(18,431)	(19,972)
Total debt	1,198,856	1,187,656
Less current portion	(82,535)	(142,456)
Long-term portion	1,116,321	1,045,200

As at March 31, 2019, the Company had one revolving credit facility (December 31, 2018 - one), which, as at such date, provided for borrowings of up to $450.0 million (December 31, 2018 - $475.0 million), and was fully drawn (December 31, 2018 - fully drawn). In May 2019, the Company refinanced the existing revolving credit facility with a new $450.0 million revolving credit facility due through 2024. The total amount available under the refinanced revolving credit facility reduces by $26.8 million (2019), $53.6 million (2020), $53.6 million (2021), $53.6 million (2022), $53.6 million (2023) and $208.8 million (thereafter). The existing revolving credit facility is guaranteed by the Company for all outstanding amounts and contain covenants that require the Company to maintain a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) in an amount equal to the greater of $35.0 million and 5.0% of the Company's total consolidated debt, a minimum ratio of twelve months' historical EBITDA relative to total interest expense and scheduled debt repayments of 1.20 times and a net debt to total capitalization ratio no greater than 75.0%. The revolving credit facility is collateralized by first-priority mortgages granted on 16 of the Company’s vessels, together with other related security.

As at March 31, 2019, two of the Company’s 50%-owned subsidiaries (December 31, 2018 - two) had a total of one outstanding term loan (December 31, 2018 - one), which totaled $51.8 million (December 31, 2018 - $55.0 million). The term loan reduces over time with quarterly payments and matures in 2021. The term loan is collateralized by first-priority mortgages on the two shuttle tankers to which the loan relates, together with other related security. As at March 31, 2019, the Company had guaranteed $25.9 million of the term loan, which represents its 50% share of the outstanding term loan and the other owner had guaranteed the remaining $25.9 million of the term loan.

As at March 31, 2019, the Company had three term loans (December 31, 2018 - three) outstanding secured by three shuttle tankers and four shuttle tanker newbuilding vessels (December 31, 2018 - three shuttle tankers and four shuttle tanker newbuilding vessels) which totaled $341.6 million (December 31, 2018 - $303.7 million). The term loans reduce over time with semi-annual payments and have varying maturities through 2030. As at March 31, 2019, the Company or a subsidiary of the Company had guaranteed all of these term loans.

Interest payments on the revolving credit facility and the term loans are based on LIBOR plus margins. At March 31, 2019, the margins ranged between 1.85% and 4.30% (December 31, 2018 - 1.85% and 4.30%). The weighted-average interest rate on the Company's variable rate long-term debt as at March 31, 2019 was 5.7% (December 31, 2018 - 5.5%). This rate does not include the effect of the Company's interest rate swaps (see note 8) or fixed rate facilities.

In September 2013 and November 2013, the Company issued, in a U.S. private placement, a total of $174.2 million of ten-year senior bonds that mature in January 2024, to finance the *Bossa Nova Spirit* and the *Sertanejo Spirit* shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security and are guaranteed by subsidiaries of the Company. The Company makes semi-annual repayments on the bonds and as at March 31, 2019, the carrying amount of the bonds was $123.9 million (December 31, 2018 - $123.9 million).

In August 2017, the Company issued $250.0 million in senior unsecured bonds in the Norwegian bond market that mature in August 2022. These bonds are listed on the Oslo Stock Exchange. As at March 31, 2019, the carrying amount of the bonds was $250.0 million (December 31, 2018 - $250.0 million). The interest payments on the bonds are fixed at a rate of 7.125%.

The aggregate annual long-term debt principal repayments required to be made subsequent to March 31, 2019 are $64.1 million (2019), $109.9 million (2020), $138.6 million (2021), $345.1 million (2022), $201.2 million (2023) and $358.4 million (thereafter).

Certain of the Company's revolving credit facility, term loans and bonds contain covenants, debt-service coverage ratio (or *DSCR*) requirements and other restrictions typical of debt financing secured by vessels that restrict the ship-owning subsidiaries from, among other things: incurring or guaranteeing indebtedness; changing ownership or structure, including mergers, consolidations, liquidations and dissolutions; paying dividends or distributions if the Company is in default or do not meet minimum DSCR requirements; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; or entering into a new line of business. Obligations under the Company's credit facilities are secured by certain vessels, and if the Company is unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets. The Company has one revolving credit facility and three term loans that require the Company to maintain vessel values to drawn principal balance ratios of a minimum range of 100% to 125%. Such requirement is assessed either on a semi-annual or annual basis, with reference to vessel valuations compiled by one or more agreed upon third parties. Should the ratio drop below the required amount, the lender may request the Company to either prepay a portion of the loan in the amount of the shortfall or provide additional collateral in the amount of the shortfall, at the Company's option. As at March 31, 2019, these hull covenant ratios were estimated to range from 138% to 225% and the Company was in compliance with the minimum ratios required. The vessel values used in calculating these hull covenant ratios are the appraised values provided by third parties where available, or prepared by the Company based on second-hand sale and purchase market data. Changes in the shuttle tanker market could negatively affect these ratios.

As at March 31, 2019, the Company was in compliance with all covenants related to the credit facilities and consolidated long-term debt.

6. Lease Obligations

The Company charters in vessels from other vessel owners on time-charter contracts, whereby the vessel owner will provide use of the vessel to the Company as well as operate the vessel for the Company. A time-charter contract is typically for a fixed period of time, although in certain cases the Company may have the option to extend the charter. The Company will typically pay the owner a daily hire rate that is fixed over the duration of the charter. The Company is generally not required to pay the daily hire rate during periods the vessel is not able to operate.

The Company has determined that all of its time-charter-in contracts contain both a lease component (lease of the vessel) and a non-lease component (operation of the vessel). The Company has allocated the contract consideration between the lease component and non-lease component on a relative standalone selling price basis. The standalone selling price of the non-lease component has been determined using a cost-plus approach, whereby the Company estimates the cost to operate the vessel using cost benchmarking studies prepared by a third party, when available, or internal estimates when not available, plus a profit margin. The standalone selling price of the lease component has been determined using an adjusted market approach, whereby the Company calculates a rate excluding the operating component based on a market time-charter rate from published broker estimates, when available, or internal estimates when not available. Given that there are no observable standalone selling prices for either of these two components, judgment is required in determining the standalone selling price of each component. The discount rate of the lease is determined using the expected incremental borrowing rate, which is based on the fixed interest rate the Company could obtain when entering into a secured loan facility of similar term.

With respect to time-charter-in contracts with an original term of more than one year, for the three months ended March 31, 2019, the Company incurred $4.7 million of time-charter hire expense related to these time-charter-in contracts, of which $2.7 million was allocable to the lease component and $2.0 million was allocable to the non-lease component. The $2.7 million allocable to the lease component approximates the cash paid for the amounts included in lease liabilities and is reflected as a reduction in operating cash flows for the three months ended March 31, 2019. As at March 31, 2019, the weighted-average remaining lease term and weighted-average discount rate for these time-charter-in contracts was 0.6 years and 5.7%, respectively.

The Company has elected to recognize the lease payments of short-term leases in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred, which is consistent with the recognition of payment for the non-lease component. Short-term leases are leases with an original term of one year or less, excluding those leases with an option to extend the lease for greater than one year or an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For the three months ended March 31, 2019, the Company incurred $4.1 million of time-charter hire expense related to time-charter contracts classified as short-term leases.

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

A maturity analysis of the Company's operating lease liabilities from time-charter-in contracts (excluding short-term leases) as at March 31, 2019 is as follows:

	Lease Commitment	Non-Lease Commitment	Total Commitment
As at March 31, 2019	**$**	**$**	**$**
Payments:			
April to December 2019	5,006	3,782	8,788
Total payments	5,006	3,782	8,788
Less imputed interest	(78)		
Carrying value of operating lease liabilities	4,928		

As at March 31, 2019, minimum commitments to be incurred by the Company under short-term time-charter contracts, were approximately $12.9 million (remainder of 2019) and $2.2 million (2020).

7. Related Party Transactions and Balances

a) During the three months ended March 31, 2019, two shuttle tankers (March 31, 2018 - three shuttle tankers) of the Company were employed on long-term time-charter-out or bareboat contracts with subsidiaries of Teekay Corporation.

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	$	**$**
Revenues (1)	9,785	11,340
Vessel operating expenses (2)	(2,916)	(5,018)
General and administrative (3)	(2,805)	(2,746)

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

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

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

c) At March 31, 2019, the carrying value of amounts due from related parties totaled $135.1 million (December 31, 2018 - $137.4 million) and the carrying value of amounts due to related parties totaled $100.2 million (December 31, 2018 - $124.7 million). Amounts due to and from related parties are non-interest bearing and unsecured, and all current due to and from related party balances are expected to be settled within the next fiscal year in the normal course of operations or from financings. Related parties include Teekay Corporation and certain of its wholly owned subsidiaries and Teekay Offshore Partners L.P. and certain of its subsidiaries.

8. Derivative Instruments

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

Foreign Exchange Risk

The Company economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts. The Company has not designated, for accounting purposes, any of the foreign currency forward contracts held during the three months ended March 31, 2019 and 2018, as cash flow hedges.

As at March 31, 2019, the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency	Fair Value / Carrying Amount of Asset (Liability) (in thousands of U.S. Dollars)	Average Forward Rate[1]	Expected Maturity 2019 (in thousands of U.S. Dollars)	Expected Maturity 2020 (in thousands of U.S. Dollars)
Norwegian Krone	233,885	(1,397)	8.16	25,578	3,095

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

Interest Rate Risk

The Company enters into interest rate swaps, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. During the three months ended March 31, 2018, the interest rate swap was designated in a qualifying hedging relationship and hedge accounting was applied in the consolidated financial statements. During 2018, the Company de-designated, for accounting purposes, the interest rate swaps and as at March 31, 2019, has not designated, for accounting purposes, its interest rate swaps as a hedge of variable rate debt. As at March 31, 2019, the Company was committed to the following interest rate swap agreement:

	Interest Rate Index	Notional Amount $	Fair Value / Carrying Amount of Assets (Liabilities) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) [1]
U.S. Dollar-denominated interest rate swap [2]	LIBOR	100,000	502	3.5	2.1%

(1) Excludes the margin the Company pays on its variable-rate debt, which at March 31, 2019, ranged from 1.85% to 4.30%.

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

For the periods indicated, the following tables present the effective and ineffective portion of the gain (loss) on the interest rate swap agreement designated and qualifying as cash flow hedges.

Three Months Ended March 31, 2019

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

Three Months Ended March 31, 2018

Effective Portion Recognized in AOCI [1]	Effective Portion Reclassified from AOCI [2]	Ineffective Portion [3]	
(1,881)	(100)	—	Interest expense

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

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

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

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

Tabular disclosure

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

	Current portion of derivative assets	Other non-current assets	Current portion of derivative liabilities	Derivative liabilities
	$	$	$	$
As at March 31, 2019				
Foreign currency contracts	—	—	(1,397)	—
Interest rate swap	324	178	—	—
	324	178	(1,397)	—
As at December 31, 2018				
Foreign currency contracts	—	—	(2,036)	(270)
Interest rate swap	608	935	—	—
	608	935	(2,036)	(270)

Total realized and unrealized (loss) gain on interest rate swaps and foreign currency forward contracts that are not designated for accounting purposes as cash flow hedges are recognized in earnings and reported in realized and unrealized loss on derivative instruments in the consolidated statements of income (loss) for the three months ended March 31, 2019 and 2018 as follows:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	$	$
Realized (loss) gain on derivative instruments		
Interest rate swaps	175	(62)
Foreign currency forward contracts	(676)	158
	(501)	96
Unrealized (loss) gain on derivative instruments		
Interest rate swaps	(1,040)	—
Foreign currency forward contracts	910	1,413
	(130)	1,413
Total realized and unrealized (loss) gain on derivative instruments	**(631)**	**1,509**

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

9. Income Taxes

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Current	(826)	(68)
Deferred	—	(11,943)
Income tax expense	(826)	(12,011)

10. Write-down of Vessels

During the three months ended March 31, 2018, the carrying value of the *Nordic Spirit* and *Stena Spirit* shuttle tankers were written down to their estimated fair values, using appraised values, due to the expected redelivery of these vessels from their charterer after completing their bareboat charter contracts in May 2018 and the resulting change in the expectations for the future opportunities for the vessels. The *Nordic Spirit* was classified as held for sale on the Company's consolidated balance sheets as at March 31, 2019 and December 31, 2018. The Company's consolidated statement of income for the three months ended March 31, 2018 includes a $28.5 million write-down related to these vessels of which $14.2 million is included in a 50%-owned subsidiary of the Company.

11. Commitments and Contingencies

In 2017, certain subsidiaries of the Company entered into shipbuilding contracts with Samsung Heavy Industries Co., Ltd. to construct four Suezmax Dynamic Positioning 2 (or *DP2*) shuttle tanker newbuilding vessels, for an aggregate fully built-up cost of approximately $602 million. These newbuilding vessels are being constructed based on the Company's new *Shuttle Spirit* design which incorporates technologies to increase fuel efficiency and reduce emissions, including liquefied natural gas (or *LNG*) propulsion technology. Upon expected delivery in late-2019 through 2020, these vessels are to provide shuttle tanker services in the North Sea, with two to operate under the Company’s existing master agreement with Equinor, and two to operate directly within the North Sea CoA fleet. As at March 31, 2019, payments made towards these commitments were $139.7 million and the remaining payments required to be made are estimated to be $182.4 million (remainder of 2019) and $279.7 million (2020). In 2018, the Company secured a debt facility, which as at March 31, 2019, provided total borrowings of up to $60.5 million for the newbuilding payments and was fully drawn. In April 2019, the Company secured a term loan totaling $413.8 million relating to these shuttle tanker newbuilding vessels and expects to repay the 2018 debt facility (see note 12).

In July 2018, certain subsidiaries of the Company entered into shipbuilding contracts with Samsung Heavy Industries Co. Ltd., to construct two Aframax DP2 shuttle tanker newbuilding vessels, for an aggregate fully built-up cost of approximately $270 million. These newbuilding vessels are being constructed based on the Company's new *Shuttle Spirit* design. Upon delivery in late-2020 through early-2021, these vessels will join the Company's CoA portfolio in the North Sea. As at March 31, 2019, payments made towards these commitments were $12.5 million and the remaining payments required to be made are estimated to be $58.0 million (remainder of 2019), $122.3 million (2020) and $77.5 million (2021). The Company expects to secure long-term financing related to these shuttle tanker newbuilding vessels.

12. Subsequent Events

a) In April 2019, the Company secured a term loan totaling $413.8 million related to the first four of its six shuttle tanker newbuilding vessels. The term loan reduces over time with semi-annual payments for each of the four shuttle tanker newbuilding vessels for which the term loan relates and matures in 2032. Each of the Company's subsidiaries that own the four shuttle tanker newbuilding vessels has guaranteed a portion of the term loan relating to the applicable vessel. The Company has drawn $99.1 million under this term loan.

b) In April 2019, the Company sold the *Nordic Spirit*, which was in lay-up and was classified as held for sale on the Company's consolidated balance sheet as at March 31, 2019, for gross proceeds of $8.9 million.

c) In May 2019, the Company secured a revolving credit facility totaling $450.0 million for 16 shuttle tankers which will be used to refinance the existing revolving credit facility due through 2022. The new revolving credit facility reduces with quarterly repayments and matures in 2024. The facility is funded by commercial banks and bears interest at LIBOR plus 250 basis points.

FORWARD-LOOKING STATEMENTS

This quarterly report contains certain forward-looking statements concerning future events and our operations, performance and financial condition, including, in particular, statements regarding:

- our future growth prospects, business strategy and other plans and objectives for future operations;
- future capital expenditures and availability of capital resources to fund capital expenditures;
- our liquidity needs and sufficiency of cash flows;
- the expected lifespan and estimated sales price or scrap value of our vessels;
- our ability to leverage the expertise, relationships and reputation of Teekay Offshore and Brookfield;
- certainty of completion, estimated delivery and completion dates, commencement of charter, intended financing and estimated costs for newbuildings and acquisitions, including the shuttle tanker newbuilding vessels;
- the expected employment of the newbuilding shuttle tankers under our existing master agreement with Equinor and the expected required capacity in our CoA fleet in the North Sea;
- expected redelivery dates of in-chartered vessels;
- expected employment and trading of older shuttle tankers;
- our entering into joint ventures and partnerships with companies;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term time charter contracts;
- our position as the leading provider of CoA shuttle tanker services in the North Sea;
- timing of settlement of amounts due to and from affiliates;
- the potential impact and timing of adoption of new accounting policies;
- the future valuation of goodwill and potential impairment;
- our compliance with covenants under our credit facilities;
- the ability of the counterparties for our derivative contracts to fulfill their contractual obligations;
- our hedging activities relating to foreign exchange and interest rate risks;
- our exposure to foreign currency fluctuations, particularly in Norwegian Krone;
- the passage of climate control legislation or other regulatory initiatives that restrict emissions of greenhouse gases;
- our expected use of proceeds from debt issuances; and
- increasing the efficiency of our business and redeploying vessels as charters expire or terminate.

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words “believe”, “anticipate”, “expect”, “estimate”, “project”, “will be”, “will continue”, “will likely result”, “plan”, “intend” or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to: changes in the demand for offshore oil transportation; greater or less than anticipated levels of vessel newbuilding orders or greater or less than anticipated rates of vessel recycling; changes in trading patterns; changes in our expenses; the timing of implementation of new laws and regulations; potential inability to implement our growth strategy; competitive factors in the markets in which we operate; potential for early termination of long-term contracts and our potential inability to renew or replace long-term contracts; loss of any customer, time charter or vessel; shipyard production or vessel delivery delays; failure to raise financing to refinance debt maturities, fund existing projects or purchase additional vessels; levels of cash reserves required by any financing agreements; our exposure interest rate and currency exchange rate fluctuations; changes to the amount or proportion of revenues and expenses denominated in foreign currencies; delays in the start-up of offshore oil fields related to the CoA contracts or the actual vessel equivalent requirements of new CoAs; and other risk factors detailed from time to time in our periodic reports filed with the Olso Bors, including our Annual Report for the year ended December 31, 2018. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.