

TEEKAY TANKERS LTD.  
Form 20-F  
April 28, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2014**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report \_\_\_\_\_**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-33867

**TEEKAY TANKERS LTD.**

(Exact name of Registrant as specified in its charter)

**Republic of The Marshall Islands**

(Jurisdiction of incorporation or organization)

**4<sup>th</sup> Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda**

**Telephone: (441) 298-2530**

(Address and telephone number of principal executive offices)

**Edith Robinson**

**4<sup>th</sup> Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda**

**Telephone: (441) 298-2530**

**Fax: (441) 292-3931**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

**Securities registered, or to be registered, pursuant to Section 12(b) of the Act.**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Class A common stock, par value of \$0.01 per share</b>	<b>New York Stock Exchange</b>

**Securities registered, or to be registered, pursuant to Section 12(g) of the Act.**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**

Indicate the number of outstanding shares of each issuer's classes of capital or common stock as of the close of the period covered by the annual report.

95,343,091 shares of Class A common stock, par value of \$0.01 per share.

16,720,945 shares of Class B common stock, par value of \$0.01 per share.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued

by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

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If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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**PART I**

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

*Unless otherwise indicated, references in this Annual Report to Teekay Tankers Ltd., we, us and our and similar terms refer to Teekay Tankers Ltd. and/or one or more of its subsidiaries, except that those terms, when used in this Annual Report in connection with the common stock described herein, shall mean specifically Teekay Tankers Ltd. References in this Annual Report to Teekay Corporation refer to Teekay Corporation and/or any one or more of its subsidiaries.*

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

our future financial condition or results of operations and our future revenues and expenses;

the crude oil and refined product tanker market fundamentals, including the balance of supply and demand in the tanker market, estimated growth in the world tanker fleet, estimated growth in global oil demand and crude oil tanker demand, changes in long-haul crude tanker movements, tanker fleet utilization and spot tanker rates and potential for floating storage;

changes in the production of or demand for oil or refined products;

changes in trading patterns significantly affecting overall vessel tonnage requirements; greater or less than anticipated levels of tanker newbuilding orders and deliveries and greater or less than anticipated rates of tanker scrapping or use of tankers for storage;

our compliance with, and the effect on our business and operating results of, covenants under our term loans and credit facilities and our ability to refinance our credit facility due in 2017;

future oil prices, production and refinery capacity;

the effect of lower global oil prices, including the potential impact on oil stockpiling, refinery throughput, bunker fuel prices, and oil futures markets;

our future financial position and ability to take advantage of growth opportunities in the global conventional tanker market;

tanker market conditions and fundamentals, including the balance of supply and demand in these markets and spot tanker charter rates and oil production;

the ability of Tanker Investments Ltd. (or TIL) to benefit from the cyclical tanker market;

our expectations about the availability of vessels to purchase, the expected costs and time it may take to construct and deliver newbuildings, or the useful lives of our vessels;

planned capital expenditures and the ability to fund capital expenditures;

the ability to leverage Teekay Corporation's relationships and reputation in the shipping industry;

the expected benefits of participation in vessel pooling arrangements;

the effectiveness of our chartering strategy in capturing upside opportunities and reducing downside risks, including our ability to take advantage of the tanker market recovery;

the ability to maximize the use of vessels, including the redeployment of vessels no longer under time charters;

our expectation regarding our vessels' ability to perform to specifications and maintain their hire rates;

operating expenses, availability of crew, number of off-hire days, dry-docking requirements and insurance costs;

the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business;

the anticipated impact and timing of future regulatory changes or environmental liabilities;

expenses under service agreements with other affiliates of Teekay Corporation;

the anticipated taxation of our company and of distributions to our stockholders;

our expectations as to any impairment of our vessels;

construction and delivery delays in the tanker industry generally;

customers increasing emphasis on environmental and safety concerns;

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anticipated funds for liquidity needs and the sufficiency of cash flows;

our use of interest rate swaps to reduce interest rate exposure;

the expected effect of off-balance sheet arrangements;

our hedging activities relating to foreign exchange, interest rate and spot market risks;

the ability of counterparties to our derivative contracts to fulfill their contractual obligations;

the delivery timing of new charter-in vessels;

changes in or additions to applicable industry laws and regulations, including Regulation (EU) No 1257/2013, which imposes rules regarding ship recycling and management of hazardous materials on vessels; and the timing of implementation of new laws and regulations;

our expectations regarding payments made on behalf of our co-obligors in connection with the loan arrangements in which certain other subsidiaries of Teekay Corporation are also borrowers;

our position that we are not a passive foreign investment company;

our business strategy and other plans and objectives for future operations;

our ability to pay dividends on our common stock; and

continued material variations in the period-to-period fair value of our derivative instruments.

Forward-looking 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, those factors discussed below in Item 3 Key Information: Risk Factors and other factors detailed from time to time in other reports we file with or furnish to the U.S. Securities and Exchange Commission (or the *SEC*).

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

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**Selected Financial Data**

Set forth below is selected consolidated financial and other data of Teekay Tankers Ltd. and its subsidiaries for fiscal years 2010 through 2014, which have been derived from our consolidated financial statements. The following table should be read together with, and is qualified in its entirety by reference to, Item 5 Operating and Financial Review and Prospects included herein, and the historical financial statements and accompanying notes and the Report of Independent Registered Public Accounting Firm thereon (which is included herein), with respect to the fiscal years 2014, 2013 and 2012.

From time to time we have purchased vessels from Teekay Corporation. During fiscal years 2010 through 2014, we acquired from Teekay Corporation a total of 18 conventional oil and product tankers of varying size. These acquisitions were deemed to be business acquisitions between entities under common control. Accordingly, we have accounted for these transactions in a manner similar to the pooling of interest method whereby our financial statements prior to the date these vessels were acquired by us are retroactively adjusted to include the results of these acquired vessels. The periods retroactively adjusted include all periods that we and the acquired vessels were both under the common control of Teekay Corporation and had begun operations. As a result, our consolidated statements of loss for the years ended December 31, 2012, 2011 and 2010 reflect the results of operations of these vessels, referred to herein as the Dropdown Predecessor, as if we had acquired them when each respective vessel began operations under the ownership of Teekay Corporation. Please refer to Item 5 Operating and Financial Review and Prospects: Items You Should Consider When Evaluating Our Results of Operations and Item 18 Financial Statements: Note 1 Summary of Significant Accounting Policies.

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or *GAAP*).

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	<b>Years Ended December 31,</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	(in thousands, except share, per share, and fleet data)				
<b>Income Statement Data:</b>					
Revenues	\$ 240,350	\$ 215,072	\$ 197,429	\$ 170,087	\$ 235,593
Voyage expenses <sup>(1)</sup>	(5,301)	(3,449)	(4,618)	(8,337)	(9,984)
Vessel operating expenses <sup>(2)</sup>	(89,083)	(92,543)	(96,160)	(91,667)	(93,022)
Time-charter hire expense <sup>(3)</sup>		(4,046)	(3,950)	(6,174)	(22,160)
Depreciation and amortization	(77,317)	(74,482)	(72,365)	(47,833)	(50,152)
General and administrative <sup>(2)</sup>	(9,187)	(7,671)	(7,985)	(12,594)	(11,959)
Vessel impairment and net (loss) gain on sale of vessels	(1,864)	(58,034)	(352,546)	(71)	9,955
Goodwill impairment charge		(19,294)			
Income (loss) from operations	57,598	(44,447)	(340,195)	3,411	58,271
Interest expense	(51,140)	(40,539)	(20,009)	(10,023)	(8,741)
Interest income	100	71	50	158	287
Realized and unrealized loss on derivative instruments	(28,684)	(27,783)	(7,963)	(1,524)	(1,712)
Equity (loss) income			(1)	854	5,228
Other (expenses) income	(1,016)	(377)	(2,063)	(1,014)	3,809
Net (loss) income	\$ (23,142)	\$ (113,075)	\$ (370,181)	\$ (8,138)	\$ 57,142
<b>Earnings (loss) per share <sup>(4)</sup></b>					
- Basic	\$ 0.37	\$ (0.15)	\$ (4.54)	\$ (0.10)	\$ 0.67
- Diluted	\$ 0.37	\$ (0.15)	\$ (4.54)	\$ (0.10)	\$ 0.66
<b>Balance Sheet Data (at end of year):</b>					
Cash and cash equivalents	14,889	18,566	26,341	25,646	162,797
Investment in term loans and interest receivable on term loans	117,825	118,598	119,385	136,061	
Vessels and equipment <sup>(5)</sup>	1,435,478	1,310,496	885,992	859,308	828,291
Total assets	1,678,423	1,641,469	1,105,656	1,097,529	1,165,359
Total debt <sup>(6)</sup>	1,158,801	999,930	739,293	755,957	666,458
Common stock and additional paid in capital	481,336	588,441	672,560	673,217	802,650
Total equity	440,791	578,164	302,183	284,672	455,723
<b>Cash Flow Data:</b>					
Cash and cash equivalents provided by (used in):					
Operating cash flow	58,402	24,020	27,542	6,202	13,603
Financing cash flow	48,051	(16,006)	(13,905)	(1,097)	13,721
Investing cash flow	(101,996)	(4,337)	(5,862)	(5,800)	109,827
Number of outstanding shares of common stock at the end of	51,986,744	61,876,744	83,591,030	83,591,030	112,064,036

the period

**Other Financial Data:**

Net revenues <sup>(7)</sup>	235,049	211,623	192,811	161,750	225,609
EBITDA <sup>(8)</sup>	105,215	1,875	(277,857)	49,560	115,748
Adjusted EBITDA <sup>(8)</sup>	135,763	106,986	82,652	53,039	106,896
<b>Capital expenditures</b>					
Expenditures for vessels and equipment	(11,987)	(4,337)	(2,518)	(1,904)	(2,063)
Expenditures for dry docking	(9,311)	(3,197)	(7,003)	(19,245)	(17,072)

**Fleet Data:**

<b>Average number of tankers <sup>(9)</sup></b>					
Suezmax	10.0	10.0	10.0	10.0	10.0
Aframax	13.0	12.7	13.0	12.6	13.4
Product	6.0	6.0	6.0	6.0	7.6
VLCC				0.5	0.8

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- (1) Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions.
- (2) Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils, and communication expenses among others. In order to more closely align our presentation to that of many of our peers, the cost of ship management activities of \$5.6 million for year ended December 31, 2014 has been presented in vessel operating expenses. Prior to 2013, we included these amounts in general and administrative expenses. All such costs incurred in comparative periods have been reclassified from general and administrative expenses to vessel operating expenses to conform to the presentation adopted in the current period. The amounts reclassified for the years ended December 31, 2013, 2012, 2011 and 2010 were \$5.6 million, \$7.0 million, \$8.5 million and \$7.4 million, respectively.
- (3) Time-charter hire expense includes vessel operating lease expense incurred to charter-in vessels.
- (4) Earnings (loss) per share is determined by dividing (a) net income (loss) after (deducting) adding the amount of net income (loss) attributable to the Dropdown Predecessor by (b) the weighted-average number of shares outstanding during the applicable period. The calculation of weighted-average number of shares includes the total Class A and total Class B shares outstanding during the applicable period. The computation of diluted earnings per share assumes the exercise of all dilutive stock options and restricted stock units using the treasury stock method. The computation of diluted loss per share does not assume such exercises.
- (5) Vessels and equipment consists of (a) vessels, at cost less accumulated depreciation, and (b) advances on any newbuildings.
- (6) Total debt includes the current and long-term portion of debt, and amounts due to affiliates.
- (7) Consistent with general practice in the shipping industry, we use net revenues (defined as revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time charters the charterer pays the voyage expenses, whereas under voyage charters the ship-owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship owner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to our customers by charging higher rates under the contract to them. As a result, although revenues from different types of contracts may vary, the net revenues are comparable across the different types of contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us than revenues, the most directly comparable GAAP financial measure. Net revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net revenues with revenues:

	<b>Years Ended December 31,</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Revenues	\$ 235,053	\$ 203,749	\$ 185,930	\$ 162,410	\$ 226,475
Interest income from investment in term loans	5,297	11,323	11,499	7,677	9,118
Voyage expenses	(5,301)	(3,449)	(4,618)	(8,337)	(9,984)
Net revenues	\$ 235,049	\$ 211,623	\$ 192,811	\$ 161,750	\$ 225,609

- (8) EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before net loss (gain) on sale of vessels, goodwill impairment, and vessel impairment and realized and unrealized loss on derivative instruments, dilution gain on share issuance by the equity accounted investment and



share of the above items in non-consolidated equity accounted investments. Both measures are used as supplemental financial measures by management and by external users of our financial statements, such as investors, as discussed below:

Financial and operating performance. EBITDA and Adjusted EBITDA assist our management and investors by increasing the comparability of our fundamental performance from period to period and against the fundamental performance of other companies in our industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including EBITDA and Adjusted EBITDA as financial and operating measures benefits investors in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in assessing whether to continue to hold shares of our Class A common stock.

Liquidity. EBITDA and Adjusted EBITDA allow us to assess the ability of assets to generate cash sufficient to service debt, pay dividends and undertake capital expenditures. By eliminating the cash flow effect resulting from our existing capitalization and other items such as dry-docking expenditures, working capital changes and foreign currency exchange gains and losses, EBITDA and Adjusted EBITDA provide consistent measures of our ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) our proper capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of our dividend policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits investors to assess the fundamental ability of our business to generate cash sufficient to meet cash needs, including dividends on shares of our Class A common stock.

Neither EBITDA nor Adjusted EBITDA, which are non-GAAP measures, should be considered an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented in this Annual Report may not be comparable to similarly titled measures of other companies.

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	<b>Years Ended December 31,</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<i>Reconciliation of Adjusted EBITDA to Net (loss) income</i>					
Net (loss) income	\$ (23,142)	\$ (113,075)	\$ (370,181)	\$ (8,138)	\$ 57,142
Depreciation and amortization	77,317	74,482	72,365	47,833	50,152
Interest expense, net of interest income	51,040	40,468	19,959	9,865	8,454
<b>EBITDA</b>	<b>\$ 105,215</b>	<b>\$ 1,875</b>	<b>\$ (277,857)</b>	<b>\$ 49,560</b>	<b>\$ 115,748</b>
Vessel impairment and net loss (gain) on sale of vessels	1,864	58,034	352,546	71	(9,955)
Goodwill impairment		19,294			
Realized and unrealized loss on derivative instruments	28,684	27,783	7,963	1,524	1,712
Fair value on initial recognition of stock purchase warrant					(3,420)
Dilution gain on equity accounted investment					(2,054)
Adjustments related to equity accounted investments				1,884	4,865
<b>Adjusted EBITDA</b>	<b>\$ 135,763</b>	<b>\$ 106,986</b>	<b>\$ 82,652</b>	<b>\$ 53,039</b>	<b>\$ 106,896</b>

	<b>Years Ended December 31,</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<i>Reconciliation of Adjusted EBITDA to Net operating cash flow</i>					
Net operating cash flow	\$ 58,402	\$ 24,020	\$ 27,542	\$ 6,202	\$ 13,603
Interest expense, net of interest income	51,040	40,468	19,959	9,865	8,454
Expenditures for dry docking	9,311	3,197	7,003	19,245	17,072
Realized loss on derivative instruments	14,859	39,021	9,543	9,887	9,993
Change in working capital	1,961	833	19,794	6,586	51,679
Other cash flows, net	190	(553)	(1,189)	(630)	6,704
Fair value on initial recognition of stock purchase warrant					(3,420)
Dilution gain on equity accounted investment					(2,054)
Adjustments related to equity accounted investments				1,884	4,865
<b>Adjusted EBITDA</b>	<b>\$ 135,763</b>	<b>\$ 106,986</b>	<b>\$ 82,652</b>	<b>\$ 53,039</b>	<b>\$ 106,896</b>

- (9) Average number of tankers consists of the average number of vessels that were in our possession during a period, including time-chartered in vessels, the vessel owned by the High-Q joint venture and vessels of the Dropdown Predecessor.

### **Risk Factors**

*Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common stock. The occurrence of any of the events described in this section could materially and adversely affect our business, financial condition, operating results and ability to pay distributions on, and the trading price of our common stock.*

*The cyclical nature of the tanker industry may lead to volatile changes in charter rates, and significant fluctuations in the utilization of our vessels, which may adversely affect our earnings.*

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply of and demand for tanker capacity and changes in the supply of and demand for oil and oil products. The cyclical nature of the tanker industry may cause significant increases or decreases in the revenues we earn from our vessels and may also cause significant increases or decreases in the value of our vessels. If the tanker market is depressed, our earnings may decrease. Our exposure to industry business cycles is more acute because of our exposure to the spot tanker market, which is more volatile than the tanker industry generally. Our ability to operate profitably in the spot market and to recharter our other vessels upon the expiration or termination of their charters will depend upon, among other factors, economic conditions in the tanker market.

The factors affecting the supply of and demand for tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

Key factors that influence the supply of tanker capacity include:

environmental concerns and regulations;

the number of newbuilding deliveries;

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the scrapping rate of older vessels;

conversion of tankers to other uses; and

the number of vessels that are out of service.

Key factors that influence demand for tanker capacity include:

supply of oil and oil products;

demand for oil and oil products;

regional availability of refining capacity;

global and regional economic and political conditions;

the distance oil and oil products are to be moved by sea; and

changes in seaborne and other transportation patterns.

Historically, the tanker markets have been volatile as a result of the many conditions and factors that can affect the price and the supply of, and demand for, tanker capacity. Changes in demand for transportation of oil over longer distances and in the supply of tankers to carry that oil may materially affect our revenues, profitability and cash flows.

***A continuation of the recent significant declines in oil prices may adversely affect our growth prospects and results of operations.***

Global crude oil prices have significantly declined since mid-2014. A continuation of lower oil prices or a further decline in oil prices may adversely affect our business, results of operations and financial condition and our ability to pay dividends, as a result of, among other things:

a reduction in exploration for or development of new oil fields or energy projects, or the delay or cancelation of existing projects as energy companies lower their capital expenditures budgets, which may reduce our growth opportunities;

potential lower demand for tankers, which may reduce available charter rates and revenue to us upon chartering or rechartering of our vessels;

customers failing to extend or renew contracts upon expiration;

the inability or refusal of customers to make charter payments to us due to financial constraints or otherwise;  
or

declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.

***Changes in the oil markets could result in decreased demand for our vessels and services.***

Demand for our vessels and services in transporting oil depends upon world and regional oil markets. Any decrease in shipments of crude oil in those markets could have a material adverse effect on our business, financial condition and results of operations. Historically, those markets have been volatile as a result of the many conditions and events that affect the price, production and transport of oil, including competition from alternative energy sources. Past slowdowns of the U.S. and world economies have resulted in reduced consumption of oil products and decreased demand for our vessels and services, which reduced vessel earnings. Additional slowdowns could have similar effects on our operating results and may limit our ability to expand our fleet.

***Changes in the spot tanker market may result in significant fluctuations in the utilization of our vessels and our profitability.***

During 2014 and 2013, we derived approximately 65.1% and 46.3%, respectively, of our net revenues from vessels operating, directly or by means of participation in pooling agreements (which includes vessels operating under charters with an initial term of less than one year). Due to our involvement in the spot-charter market, declining spot rates in a given period generally will result in corresponding declines in our operating results for that period.

The spot-charter market is highly volatile and fluctuates based upon tanker and oil supply and demand. The successful operation of our vessels in the spot-charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. Future spot rates may not be sufficient to enable our vessels trading in the spot tanker market to operate profitably or to provide sufficient cash flow to service our debt obligations.

***The operation of a significant number of our tankers in the Gemini Suezmax Pool, Teekay Aframax Pools, Taurus Tankers LR2 Pool and Norient Product Pool could limit our earnings.***

As of December 31, 2014, ten of our Suezmax tankers, three of our owned and seven of our time-chartered in Aframax tankers, and three of our owned and four of our time-chartered in LR2 product tankers operated in, and generated revenues to us through participation in, a Suezmax tanker pooling arrangement (the *Gemini Suezmax Pool*), two Aframax tanker revenue sharing arrangements (the *Teekay Aframax Pools*), and an LR2 product tanker pooling arrangement (the *Taurus Tankers LR2 Pool*), respectively. The Teekay Aframax Pools and Taurus Tankers LR2 Pool are each managed by Teekay Tanker Operations Ltd. (or *TTOL*), in which Teekay Corporation and we each have a 50% interest, while the Gemini Suezmax Pool is owned 50% by TTOL. In addition, as of December 31, 2014, two of our MR product tankers operated in the Norient Product Pool, which is managed by a third party unaffiliated with Teekay Corporation. Pooling arrangements are designed to spread the costs and risks associated with commercial management of vessels and to share the net revenues earned by all of the vessels in the pool. Although the net revenues are apportioned based on the actual earning days each vessel is available and the relative

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performance capabilities of each vessel, a pool may include vessels that do not perform as well in actual operation as our vessels. As a result, our share of the net pool revenues may be less than what we could earn operating our vessels independently. Certain vessels of Tanker Investments Ltd. (*TIL*), in which we have an ownership interest, also participate in some of these pooling arrangements.

***The removal of any vessels from the Gemini Suezmax Pool, Teekay Aframax Pools, Taurus Tankers LR2 Pool, Norient Product Pool or any other pooling arrangement in which we participate may adversely affect our operating results.***

Participants in the Gemini Suezmax Pool, including third parties, have each agreed to include in the pool certain qualifying Suezmax-class crude tankers of the pool participants and their respective affiliates, including us, that operate in the spot market or pursuant to time charters of less than one year. We and Teekay Corporation have each committed to include in the Teekay Aframax Pools all of our and its respective Aframax-class crude tankers that are employed in the spot market or operate pursuant to time charters of less than 90 days. Participants in the Taurus Tankers LR2 Pool, including third parties, have each agreed to include in the pool certain qualifying LR2 product tankers of the pool participants and their respective affiliates, including us, that operate in the spot market or pursuant to time charters of less than one year. Participants in the Norient Product Pool, including third parties, have each agreed to include in that pool certain qualifying MR product tankers of the pool participants and their respective affiliates, including us, that operate in the spot market or pursuant to time charters of less than one year. If we or any participant remove vessels from any pooling arrangement in which we participate to operate under longer-term time charters, the benefits to us of the pooling arrangements could diminish. In addition, the European Union is in the process of substantially reforming the way it regulates traditional agreements for maritime services from an antitrust perspective. These changes may impose new restrictions on the way pools are operated or may prohibit pooling arrangements altogether. If for any reason our vessels, Teekay Corporation's vessels, or any third party vessels cease to participate in any pooling arrangement in which we participate, or if the pooling arrangements are significantly restricted, we may not achieve the benefits intended by pool participation and our results of operations could be harmed.

***Our failure to renew or replace fixed-rate charters could cause us to trade the related vessels in the spot market, which could adversely affect our operating results and make them more volatile.***

As of December 31, 2014, a total of eight of our tankers and one jointly-owned vessel operated under fixed-rate time-charter contracts, five of which are scheduled to expire in 2015, three in 2016, and one in 2018, respectively. If upon their scheduled expiration or any early termination we are unable to renew or replace fixed-rate charters on favorable terms, if at all, or if we choose not to renew or replace these fixed-rate charters, we may employ the vessels in the volatile spot market. Increasing our exposure to the spot market, particularly during periods of unfavorable market conditions, could harm our results of operations and make them more volatile.

***Our vessels operate in the highly competitive international tanker market.***

The operation of oil tankers and transportation of crude oil and refined petroleum products are extremely competitive businesses. Competition arises primarily from other tanker owners, including major oil companies and independent tanker companies, some of which have substantially greater financial strength and capital than do we or than does Teekay Corporation. Competition for the transportation of oil and oil products can be intense and depends on price and the location, size, age, condition of the tanker and the acceptability of the tanker and its operators to the charterers. Our competitive position may erode over time.

***Our operating results are subject to seasonal fluctuations.***

Our tankers operate in markets that have historically exhibited seasonal variations in tanker demand and, therefore, in spot-charter rates. This seasonality may result in quarter-to-quarter volatility in our results of operations. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere but weaker in the summer months as a result of lower oil consumption in the northern hemisphere and refinery maintenance. In addition, unpredictable weather patterns during the winter months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, revenues generated by the tankers in our fleet have historically been weaker during the fiscal quarters ended June 30 and September 30, and stronger in our fiscal quarters ended December 31 and March 31.

***Future economic downturns, including disruptions in the global credit markets, could adversely affect our ability to grow.***

Economic downturns and financial crises in the global markets could produce illiquidity in the capital markets, market volatility, heightened exposure to interest rate and credit risks, and reduced access to capital markets. If global financial markets and economic conditions significantly deteriorate in the future, we may face restricted access to the capital markets or bank lending, which may make it more difficult and costly to fund future growth. Decreased access to such resources could have a material adverse effect on our business, financial condition and results of operations.

***Economic downturns may affect our customers' ability to charter our vessels and pay for our services and may adversely affect our business and results of operations.***

Economic downturns in the global financial markets may lead to a decline in our customers' operations or ability to pay for our services, which could result in decreased demand for our vessels and services. Our customers' inability to pay could also result in their default on our current contracts and charters. A decline in the amount of services requested by our customers or their default on our contracts with them could have a material adverse effect on our business, financial condition and results of operations.

***Exposure to currency exchange rate fluctuations could result in fluctuations in our operating results.***

Our primary economic environment is the international shipping market, which utilizes the U.S. Dollar as its functional currency. Consequently, virtually all of our revenues and the majority of our expenses are in U.S. Dollars. However, we incur certain voyage expenses, vessel operating expenses, and general and administrative expenses in foreign currencies, the most significant of which are the Euro, Canadian Dollar and British Pound. This partial mismatch in revenues and expenses could lead to fluctuations in our net income due to changes in the value of the U.S. Dollar relative to other currencies.

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***We may not be able to grow or to manage our growth effectively.***

One of our principal strategies is to continue to grow by expanding our operations and adding vessels to our fleet. Our future growth will depend upon a number of factors, some of which are beyond our control. These factors include our ability to:

identify suitable tankers or shipping companies for acquisitions or joint ventures;

integrate successfully any acquired tankers or businesses with our existing operations; and

obtain required financing for our existing and any new operations.

In addition, competition from other companies, many of which have significantly greater financial resources than we or than does Teekay Corporation, may reduce our acquisition opportunities or cause us to pay higher prices. Our failure to effectively identify, purchase, develop and integrate any tankers or businesses could adversely affect our business, financial condition and results of operations.

***We may not realize expected benefits from acquisitions, and implementing our growth strategy through acquisitions may harm our financial condition and performance.***

Any acquisition of a vessel or business may not be profitable at or after the time of acquisition and may not generate cash flows sufficient to justify the investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;

be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;

decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;

significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;

incur or assume unanticipated liabilities, losses or costs associated with any vessels or businesses acquired;  
or



incur other significant charges, such as impairment of intangible assets, asset devaluation or restructuring charges.

Unlike newbuildings, existing vessels typically do not carry warranties as to their condition. While we generally inspect existing vessels prior to purchase, such an inspection would normally not provide us with as much knowledge of a vessel's condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flows and liquidity, and harm our financial condition and performance.

***Over time, the value of our vessels may decline, which could adversely affect our ability to obtain financing or our operating results.***

Vessel values for oil tankers can fluctuate substantially over time due to a number of different factors. Vessel values may decline from existing levels. If the operation of a tanker is not profitable, or if we cannot re-deploy a chartered tanker at attractive rates upon charter termination, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a fair market value or the disposition of the vessel at a fair market value that is lower than its book value could result in a loss on its sale and adversely affect our results of operations and financial condition. In addition, three of our credit facilities contain loan-to-value financial covenants tied to the value of the vessel that collateralizes these credit facilities. A significant decline in the market value of these tankers may require us to pledge additional collateral to avoid a default under these credit facilities. We are required to maintain vessel value to outstanding loan principal balance ratios ranging from 105%-130%. At December 31, 2014, we were in compliance with these requirements.

In addition, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings. Vessel values had declined significantly in prior years, which contributed to significant vessel and goodwill impairment charges against our earnings.

***Delays in deliveries of any newbuildings could harm our operating results and financial condition.***

The delivery of any newbuilding that we may order could be delayed, which would delay our receipt of revenues related to the vessel. The completion and delivery of newbuildings could be delayed because of:

quality or engineering problems;

changes in governmental regulations or maritime self-regulatory organization standards;

work stoppages or other labor disturbances at the shipyard;

bankruptcy or other financial crisis of the shipbuilder;

a backlog of orders at the shipyard;

political or economic disturbances;

weather interference or catastrophic event, such as a major earthquake, tsunami or fire;

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requests for changes to the original vessel specifications;

shortages of or delays in the receipt of necessary construction materials, such as steel;

an inability to finance the construction of the vessels; or

an inability to obtain requisite permits or approvals.

If delivery of a vessel is significantly delayed, it could adversely affect our results of operations and financial condition and our ability to pay dividends to our stockholders.

***We will be required to make substantial capital expenditures to expand the size of our fleet. We generally will be required to make significant installment payments for any acquisitions of newbuilding vessels prior to their delivery and generation of revenue. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our financial leverage could increase or our stockholders' ownership interest in us could be diluted.***

We will be required to make substantial capital expenditures to increase the size of our fleet. We intend to expand our fleet by acquiring tankers from third parties or from Teekay Corporation. Our acquisitions may also include newbuildings. We generally will be required to make installment payments on any newbuildings prior to their delivery. We typically pay 10% to 20% of the purchase price of a tanker upon signing the purchase contract, even though delivery of the completed vessel does not occur until much later (approximately two to three years from the order). To fund expansion capital expenditures, we may be required to use cash balances or cash from operations, incur borrowings or raise capital through the sale of debt or additional equity securities. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering, as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain funds for capital expenditures could have a material adverse effect on our business, results of operations and financial condition. Even if we are successful in obtaining the necessary funds, incurring additional debt may significantly increase our interest expense and financial leverage, which could limit our financial flexibility and ability to pursue other business opportunities. In addition, issuing additional equity securities may result in significant stockholder ownership dilution and would increase the aggregate amount of cash required to pay quarterly dividends.

***An increase in operating costs could adversely affect our cash flows and financial condition.***

We have entered into a long-term management agreement (or the *Management Agreement*) with Teekay Tankers Management Services Ltd. (our *Manager*), a subsidiary of Teekay Corporation. Under the Management Agreement, we must reimburse our Manager for vessel operating expenses (including crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses). These expenses depend upon a variety of factors, many of which are beyond our or our Manager's control. Some of these costs, primarily relating to insurance and enhanced security measures, have been increasing and may increase in the future. Increases in any of these costs would decrease our earnings and adversely affect our cash flows and financial condition.

***Financing agreements containing operating and financial restrictions may restrict our business and financing activities.***

The operating and financial restrictions and covenants in our revolving credit facilities, term loans and in any of our future financing agreements could adversely affect our ability to finance future operations or capital needs or to pursue and expand our business activities. For example, these financing arrangements may restrict our ability to:

incur or guarantee indebtedness;

change ownership or structure, including mergers, consolidations, liquidations and dissolutions;

pay dividends;

grant liens on our assets;

sell, transfer, assign or convey assets;

make certain investments; and

enter into a new line of business.

Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, we may fail to comply with these covenants. If we breach any of the restrictions, covenants, ratios or tests in the financing agreements, our obligations may become immediately due and payable, and the lenders' commitment, if any, to make further loans may terminate. A default under one financing agreement could also result in foreclosure on any of our vessels and other assets securing related loans, or trigger a default under other financing agreements.

***Our substantial debt levels may limit our flexibility in obtaining additional financing, pursuing other business opportunities and paying dividends.***

As of December 31, 2014, our long-term debt was approximately \$656.1 million and an additional \$126.2 million was available to us under our revolving credit facilities. We will continue to have the ability to incur additional debt, subject to limitations in our revolving credit facilities. Our level of debt could have important consequences to us, including the following:

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our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, business opportunities and dividends to our stockholders;

our debt level will make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally; and

our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt depends upon, among other things, our financial and operating performance, which is affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

***Our insurance may be insufficient to cover losses that may occur to our vessels or result from our operations.***

The operation of oil tankers is inherently risky. Although we carry hull and machinery (marine and war risks) and protection and indemnity insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, we do not carry insurance on our vessels covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. Any significant off-hire time of our vessels could harm our business, operating results and financial condition. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of our insurance coverage is maintained through mutual protection and indemnity associations, and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

Our Manager may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill, marine disasters or natural disasters could exceed the insurance coverage, which could harm our business, financial condition and operating results. Any uninsured or underinsured loss could harm our business and financial condition. In addition, the insurance may be voidable by the insurers as a result of certain actions, such as vessels failing to maintain certification with applicable maritime self-regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult to obtain. In addition, the insurance that may be available may be significantly more expensive than existing coverage.

***Terrorist attacks, piracy, increased hostilities or war could lead to further economic instability, increased costs and disruption of business.***

Terrorist attacks, piracy and the current conflicts in the Middle East, and other current and future conflicts, may adversely affect our business, operating results, financial condition, and ability to raise capital and fund future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of oil production and distribution, which could result in reduced demand for our services.

In addition, oil facilities, shipyards, vessels, pipelines, oil fields or other infrastructure could be targets of future terrorist attacks and our vessels could be targets of pirates or hijackers. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport oil to or from certain locations. Terrorist attacks, war, piracy, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of oil to be shipped by us could entitle customers to terminate the charters which would harm our cash flow and business.

***Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.***

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and the Indian Ocean off the coast of Somalia. While there continue to be significant numbers of piracy incidents in the Gulf of Aden and Indian Ocean, recently there have been increases in the frequency and severity of piracy incidents off the coast of West Africa. If these piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war risk insurance premiums payable for such coverage may increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

***Our substantial operations outside the United States expose us to political, governmental and economic instability, which could harm our operations.***

Because our operations are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We derive some of our revenues from shipping oil from politically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping. Hostilities or other political instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries to which we trade may limit trading activities with those

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countries, which could also harm our business and ability to make cash distributions. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flows and financial results.

***Past port calls by our vessels, or third-party vessels from which we derived pooling revenues, to countries that are subject to sanctions imposed by the United States and the European Union may impact investors' decisions to invest in our securities.***

The United States government has imposed sanctions on Iran, Syria and Sudan. The European Union (or *EU*) has also imposed sanctions on trade with Iran. In the past, conventional oil tankers owned or chartered-in by us, or third-party vessels participating in commercial pooling arrangements from which we derive revenue, made limited port calls to those countries for the loading and discharging of oil products. Those port calls did not violate U.S. or EU sanctions at the time and we intend to maintain our compliance with all U.S. and EU sanctions. In addition, we have no future contracted loadings or discharges in any of those countries and intend not to enter into voyage charter contracts for the transport of oil or gas to or from Iran, Syria or Sudan. We believe that our compliance with these sanctions and our lack of any future port calls to those countries does not and will not adversely impact our revenues, because port calls to these countries have never accounted for any material amount of our revenues. However, some investors might decide not to invest in us simply because we have previously called on, or through our participation in pooling arrangements have previously received revenue from calls on, ports in these sanctioned countries. Any such investor reaction could adversely affect the market for our common shares.

***Marine transportation is inherently risky, and an incident involving significant loss of product or environmental contamination by any of our vessels could harm our reputation and business.***

Vessels and their cargoes are at risk of being damaged or lost because of events such as:

marine disasters;

bad weather or natural disasters;

mechanical or electrical failures;

grounding, capsizing, fire, explosions and collisions;

piracy;

human error; and

war and terrorism.

An accident involving any of our vessels could result in any of the following:

death or injury to persons, loss of property or damage to the environment and natural resources;

delays in the delivery of cargo;

loss of revenues from charters;

liabilities or costs to recover any spilled oil or other petroleum products and to restore the eco-system affected by the spill;

governmental fines, penalties or restrictions on conducting business;

higher insurance rates; and

damage to our reputation and customer relationships generally.

Any of these events could have a material adverse effect on our business, financial condition and operating results.

***The shipping industry is subject to substantial environmental and other regulations, which may significantly limit operations and increase expenses.***

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, discharges to air and water, and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution. In addition, we believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

These requirements may affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or other hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with our operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels. For further information about regulations affecting our business and related requirements on us, please read Item 4 Information on the Company: B. Business Overview Regulations.





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***Climate change and greenhouse gas restrictions may adversely impact our operations and markets.***

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil industry relating to climate change may also adversely affect demand for our services. Although we do not expect that demand for oil will lessen dramatically over the short-term, in the long-term climate change may reduce the demand for oil or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

***Maritime claimants could arrest, or port authorities could detain, our vessels, which could interrupt our cash flow from these vessels.***

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet or the pooling arrangements in which we operate for claims relating to another of our ships. In addition, port authorities may seek to detain our vessels in port, which could adversely affect our operating results or relationships with customers.

***We depend on Teekay Corporation to assist us in operating our business and competing in our markets, and our business will be harmed if Teekay Corporation fails to assist us.***

Pursuant to the terms of the Management Agreement, our Manager provides to us commercial, technical, administrative and strategic services, including vessel maintenance, crewing, purchasing, shipyard supervision, insurance and financial services. Our operational success and ability to execute our growth strategy depend significantly upon the satisfactory performance of these services by our Manager. Our business will be harmed if our Manager fails to perform these services satisfactorily, if it stops providing these services to us or if it terminates the Management Agreement, as it is entitled to do under certain circumstances. The circumstances under which we are able to terminate the Management Agreement are limited and do not include mere dissatisfaction with our Manager's performance. In addition, upon any termination of the Management Agreement, we may lose our ability to benefit from economies of scale in purchasing supplies and other advantages that we believe our relationship with Teekay Corporation provides. Furthermore, the profitable operation of our tankers that participate in tanker pooling arrangements depends largely on the efforts of the pool managers, Teekay Corporation's participation in the pooling arrangements and its reputation and relationships in the shipping industry. Under the pooling arrangements, the earnings and voyage expenses of all of the vessels in pools are aggregated, or pooled, and divided according to an agreed formula. If Teekay Corporation suffers material damage to its reputation or relationships, it may harm our ability to:

maximize revenues of our tankers included in the pooling arrangements;

acquire new tankers or obtain new time charters;

renew existing time charters upon their expiration;

successfully interact with shipyards during periods of shipyard construction constraints;

obtain financing on commercially acceptable terms; or

maintain satisfactory relationships with suppliers and other third parties.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, results of operations and financial condition.

***Teekay Corporation and its affiliates may engage in competition with us.***

In our articles of incorporation and in a contribution, conveyance and assumption agreement we entered into with Teekay Corporation in connection with our initial public offering, we have renounced business opportunities that may be attractive to both Teekay Corporation and us in favor of Teekay Corporation, which may strengthen Teekay Corporation's ability to compete with us.

The pooling arrangements we participate in are managed, in whole or in part, by Teekay Corporation subsidiaries. When operated in a pool, chartering decisions are made by the pool manager and vessel earnings are based on a formula designed to allocate the pool's earnings to vessel owners based on actual on-hire performance of the vessels they contributed, and attributes of the vessels, rather than amounts actually earned by those vessels. If we, Teekay Corporation or its affiliates terminate the pooling arrangements in which we participate pursuant to the terms thereof or if vessels of Teekay Corporation or us cease operating in the pooling arrangements for any other reason, our tankers may compete with other vessels owned or operated by Teekay Corporation to provide crude oil transportation services. In addition, we may compete with Teekay Corporation in seeking to charter any vessels in our fleet under fixed-rate time charters, whether upon the expiration or early termination of existing time charters or otherwise.

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During 2012, we acquired four Suezmax tankers, three Aframax tankers, three LR2 product tankers and three MR product tankers from Teekay Corporation (or the *2012 Acquired Business*). In connection with the 2012 Acquired Business transaction, Teekay Corporation entered into a non-competition agreement with us in June 2012 that (a) limits Teekay Corporation's ability to expand its direct or indirect fleet of conventional and product tankers and (b) provides us a right of first refusal to acquire existing or newbuilding conventional and product tankers pursuant to opportunities Teekay Corporation develops. The non-competition agreement expires on June 15, 2015.

***Teekay Corporation may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business.***

Our success depends in large part on Teekay Corporation's ability to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crew members is intense. If crew costs increase and we are not able to increase our rates to compensate for any such increases, our financial condition and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

***The superior voting rights of our Class B common stock held by Teekay Corporation limit our Class A common stockholders' ability to control or influence corporate matters.***

Our Class B common stock has five votes per share and our Class A common stock has one vote per share. However, the voting power of the Class B common stock is limited such that the aggregate voting power of all shares of outstanding Class B common stock can at no time exceed 49% of the voting power of our outstanding Class A common stock and Class B common stock, voting together as a single class. As of the date of this Annual Report, Teekay Corporation indirectly owns shares of Class A and Class B common stock representing a majority of the voting power of our outstanding capital stock. Through its ownership of our Class B common stock and of our Manager and other entities that provide services to us, Teekay Corporation has substantial control and influence over our management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions. In addition, because of this dual-class common stock structure, Teekay Corporation will continue to be able to control matters submitted to our stockholders for approval even though it owns significantly less than 50% of the outstanding shares of our common stock. This voting control limits our Class A common stockholders' ability to influence corporate matters and, as a result, we may take actions that our Class A common stockholders do not view as beneficial.

***Our Manager has rights to terminate the Management Agreement and, under certain circumstances, could receive substantial sums in connection with such termination; however, even if our Board of Directors or our stockholders are dissatisfied with our Manager, there are limited circumstances under which we can terminate the Management Agreement.***

Our Management Agreement has an initial term through December 31, 2022 and will automatically renew for subsequent five-year terms provided that certain conditions are met. Our Manager has the right to terminate the Management Agreement with 12 months' notice. Our Manager also has the right to terminate the Management Agreement after a dispute resolution process if we have materially breached the Management Agreement. The Management Agreement will terminate upon the sale of all or substantially all of our assets to a third party, our liquidation or after any change of control of our company occurs. If the Management Agreement is terminated as a result of an asset sale, our liquidation or change of control, then our Manager may be paid a termination fee. Any such payment could be substantial.

In addition, our rights to terminate the Management Agreement are limited. Even if we are not satisfied with the Manager's efforts in managing our business, unless our Manager materially breaches the agreement or experiences certain bankruptcy or change of control events, we have only a limited right to terminate the agreement after 10 years and may not be able to terminate the agreement until the end of the initial 15-year term. If we elect to terminate the Management Agreement at either of these points or at the end of any subsequent renewal term, our Manager will receive a termination fee, which may be substantial.

***Our Manager could receive a performance fee which is contingent on our results of operations and financial condition.***

If Gross Cash Available for Distribution for a given fiscal year exceeds \$3.20 per share of our common stock (subject to adjustment for stock dividends, splits, combinations and similar events, and based on the weighted-average number of shares outstanding for the year) (or the *Incentive Threshold*), our Manager generally will be entitled to payment of a performance fee equal to 20% of all Gross Cash Available for Distribution for such year in excess of the Incentive Threshold. Although the performance fee is payable on an annual basis, we accrue any amounts expected to be payable in respect of the performance fee on a quarterly basis. Gross Cash Available for Distribution represents the distributable cash flows that we generate from operations.

***Many seafaring employees are covered by collective bargaining agreements, and the failure to renew those agreements or any future labor agreements may disrupt operations and adversely affect our cash flows.***

A significant portion of Teekay Corporation's seafarers that crew our vessels are employed under collective bargaining agreements. Teekay Corporation may become subject to additional labor agreements in the future. Teekay Corporation may suffer labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. The collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Salaries are typically renegotiated annually or biannually for seafarers. Although these negotiations have not caused labor disruptions in the past, any labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition.

***Our executive officers and directors and the executive officers and directors of our Manager have conflicts of interest and limited fiduciary and contractual duties, which may permit them to favor interests of other Teekay Corporation affiliates above our interests and those of our Class A common stockholders.***

Conflicts of interest may arise between Teekay Corporation, our Manager and their affiliates, on the one hand, and us and our stockholders, on the other hand. As a result of these conflicts, Teekay Corporation or our Manager may favor their own interests and the interests of their affiliates over our interests and those of our stockholders. These conflicts include, among others, the following situations:

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our Chief Executive Officer and Chief Financial Officer and one of our directors also serve as executive officers or directors of Teekay Corporation or our Manager, and we have limited their fiduciary duties regarding corporate opportunities that may be attractive to both Teekay Corporation and us;

our Manager advises our Board of Directors about the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional common stock and cash reserves, each of which can affect our ability to pay dividends to our stockholders and the amount of the performance fee payable to our Manager under the Management Agreement;

our executive officers and those of our Manager do not spend all of their time on matters related to our business; and

our Manager will advise us of costs incurred by it and its affiliates that it believes are reimbursable by us.

***The fiduciary duties of certain of our officers and directors may conflict with their duties as officers or directors of Teekay Corporation and its affiliates.***

Our officers and directors have fiduciary duties to manage our business in a manner beneficial to us and our stockholders. However, our Chief Executive Officer and our Chief Financial Officer also serve as executive officers of Teekay Corporation or our Manager, and one of our non-independent directors also serves as an executive officer of Teekay Corporation and director of our Manager, and, as a result, have fiduciary duties to manage the business of Teekay Corporation and its affiliates in a manner beneficial to such entities and their stockholders or partners, as the case may be. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Teekay Corporation or our Manager or their affiliates, on the one hand, and us, on the other hand, are in conflict. The resolution of these conflicts may not always be in our best interest or that of our stockholders.

**Tax Risks**

In addition to the following risk factors, you should read Item 4E. Taxation of the Company and Item 10. Additional Information Material U.S. Federal Income Tax Considerations and Non-United States Tax Considerations for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our Class A common stock.

***U.S. tax authorities could treat us as a passive foreign investment company, which could have adverse U.S. federal income tax consequences to U.S. shareholders.***

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a passive foreign investment company (or PFIC) for such purposes in any taxable year for which either (a) at least 75% of its gross income consists of passive income, or (b) at least 50% of the average value of the entity's assets is attributable to assets that produce or are held for the production of passive income. For purposes of these tests, passive income includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties (other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business). By contrast, income derived from the performance of services does not constitute passive income.

There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc.*

*v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Internal Revenue Code of 1986, as amended (or the *Code*). However, the Internal Revenue Service (or *IRS*) stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The *IRS*'s statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the *IRS* or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the *Code*. Nevertheless, based on the composition of our assets and operations (and those of our subsidiaries), we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that this position would be sustained by a court if contested by the *IRS*, or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations.

If the *IRS* were to determine that we are or have been a PFIC for any taxable year during which a U.S. Holder (as defined below under Item 10 Additional Information Material U.S. Federal Income Tax Considerations ) held stock, such U.S. Holder would face adverse tax consequences. For a more comprehensive discussion regarding our status as a PFIC and the tax consequences to U.S. Holders if we are treated as a PFIC, please read Item 10: Additional Information-Material U.S. Federal Income Tax Considerations-United States Federal Income Taxation of U.S. Holders-Consequences of Possible PFIC Classification.

***We may be subject to taxes, which reduces our cash available for distribution to our shareholders.***

We or some of our subsidiaries may be subject to tax in the jurisdictions in which we or our subsidiaries are organized own assets or have operations, which reduces the amount of our cash available for distribution. In computing our tax obligation in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries in jurisdictions in which operations are conducted further reducing the cash available for distribution. In addition, changes in our operations or ownership could result in additional tax being imposed on us or on our subsidiaries in jurisdictions in which operations are conducted. For example, if Teekay Tankers Ltd. was not able to satisfy the requirements of the exemption from U.S. taxation under Section 883 of the *Code*, our U.S. source income would become subject to taxation under Section 887 of the *Code*. The amount of such tax would depend upon the amount of income we earn from voyages into or out of the United States, which is not within our complete control.

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**Table of Contents****Item 4. Information on the Company****A. History and Development of the Company**

Teekay Tankers Ltd. ( we, us, or the Company ) are an international provider of marine transportation to global oil industries. We were formed as a Marshall Islands corporation in October 2007 by Teekay Corporation (NYSE: TK), a leading provider of marine services to the global oil and natural gas industries. We completed our initial public offering on December 18, 2007 with an initial fleet of nine Aframax oil tankers which were transferred to us by Teekay Corporation

Our fleet size has increased from nine owned Aframax tankers in 2007 to 27 owned vessels, 12 in-chartered vessels and one jointly-owned Very Large Crude Carrier (or VLCC) as of December 31, 2014. The capacity of our fleet has risen from approximately 980,000 deadweight tonnes (or *dwt*) in 2007 to approximately 4,900,000 dwt as of December 31, 2014. Over the last five years, we have acquired a total of 18 conventional tankers from Teekay Corporation, including seven Suezmax tankers, five Aframax tankers, three Long Range 2 (or LR2) product tankers, and three Medium Range (or MR) product tankers. In March 2014, we also assumed ownership of two VLCCs that previously served as collateral under term loans we made to a third party. Please read Item 18 Financial Statements: Note 5 Investment in Term Loans. In December 2014, we entered into agreements to acquire one Aframax tanker and four LR2 product tankers. We took delivery of three and two of these vessels in February and March 2015, respectively. Please read Item 18 Financial Statements: Note 20 Subsequent Events. Over the last five years, we have sold three Aframax and two VLCC tankers. From time to time, we also charter-in vessels, typically from third parties as part of our chartering strategy. Please read Business Strategies below in this Item. In 2010, we entered into a joint venture with a third party to construct a VLCC newbuilding, which was delivered in June 2013. Most of our acquisitions were financed by a combination of utilizing the net proceeds from public equity offerings, as well as the assumption of existing debt, drawing on our revolving credit facility, and using our available working capital.

In April 2013, we entered into agreements with STX Offshore & Shipbuilding Co. Ltd. (or STX) of South Korea to construct four fuel-efficient 113,000 dwt LR2 product tanker newbuildings plus options to order up to an additional 12 vessels. The payment of our first shipyard installment was contingent on us receiving acceptable refund guarantees for the shipyard installment payments. In October and November 2013, we exercised our options to order eight additional LR2 newbuildings, in aggregate, under option agreements relating to the original STX LR2 shipbuilding agreements signed in April 2013. STX did not produce shipbuilding contracts within the specified timeframe of the option declarations, and informed us that there was no prospect of the refund guarantees being provided under any of the firm or option contracts and therefore, STX is in breach of the option agreements. In December 2013, the newbuilding agreements were terminated by us and in February 2014, the option agreements were terminated. In February 2014, we commenced legal action for damages. In November 2014, we placed \$0.6 million in an escrow account as cash security pending the resolution of this matter. Please read Item 18 Financial Statements: Note 19 Shipbuilding Contracts and Note 20 Subsequent Events.

We are incorporated under the laws of the Republic of The Marshall Islands as Teekay Tankers Ltd. and maintain our principal executive offices at 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530.

**B. Business Overview**

Our business is to own crude oil and product tankers and we employ a chartering strategy that seeks to capture upside opportunities in the spot market while using fixed-rate time charters to reduce downside risks. Teekay Corporation, which formed us in 2007, is a leading provider of marine services to the global oil and natural gas industries and the



world's largest operator of medium-sized oil tankers. We believe we benefit from Teekay Corporation's expertise, relationships and reputation as we operate our fleet and pursue growth opportunities. We have acquired the majority of our current operating fleet from Teekay Corporation at various times since our inception and we anticipate additional opportunities to expand our fleet through acquisitions of tankers from third parties, and additional tankers that Teekay Corporation may offer to us from time to time. These tankers may include crude oil and product tankers.

Since the first quarter of 2013, we have distributed to our shareholders a fixed quarterly dividend of \$0.03 per share (\$0.12 per share annually), which is reviewed from time to time by our Board of Directors. Prior to the first quarter of 2013, we distributed to our shareholders on a quarterly basis, all of our Cash Available for Distribution, subject to any reserves our Board of Directors determined to be required for prudent conduct of our business. For additional information about our dividend policy, please read Item 8 Financial Information: Dividend Policy.

Under the supervision of our executive officers and Board of Directors, our operations are managed by Teekay Tankers Management Services Ltd. (our *Manager*), a subsidiary of Teekay Corporation, that provides to us commercial, technical, administrative and strategic services. We have entered into a long-term agreement with our Manager (the *Management Agreement*) pursuant to which our Manager and its affiliates provide to us technical, administrative and strategic services. Commercial services are provided to us by other wholly or partially owned subsidiaries of Teekay Corporation that manage the Gemini Suezmax Pool, the Teekay Aframax Pools and the Taurus Tankers LR2 Pool. We pay our Manager a market-based fee for its services. In order to provide our Manager with an incentive to improve our operation and financial conditions, we have agreed to pay a performance fee to our Manager under certain circumstances, in addition to the basic fee provided in the Management Agreement. Please read Item 7 Major Shareholders and Related Party Transactions: Related Party Transactions Management Agreement for additional information about the Management Agreement.

We employ our chartering strategy based on the outlook of our Manager for freight rates, oil tanker market conditions and global economic conditions. As of December 31, 2014, we owned 27 vessels, in-chartered 12 vessels and owned 50% of a VLCC held by our joint venture with Wah Kwong Maritime Transport Holdings Limited. Please refer to the Our Fleet table below. We employ our vessels on fixed rate time-charter out contracts and in various pooling arrangements, the majority of which are managed by wholly or partially owned subsidiaries of Teekay Corporation which employ vessels on the spot market. By employing some of our vessels in these pooling arrangements with Teekay, we believe we benefit from Teekay Corporation's expertise in commercial management of oil tankers and economies of scale of a larger fleet, including higher vessel utilization and daily revenues. We also believe that these pooling arrangements limit Teekay Corporation's ability to compete with us in the spot market.

**Table of Contents****Our Fleet**

As at December 31, 2014, our fleet consisted of 40 vessels, including 12 in-chartered vessels and one 50%-owned VLCC. The following table summarizes our fleet as at December 31, 2014:

	Owned Vessels	Chartered-in Vessels	Total
<u>Fixed-rate:</u>			
Aframax Tankers	7		7
Medium Range Product Tankers	1		1
VLCC Tankers <sup>(1)</sup>	1		1
<b>Total Fixed-Rate Fleet <sup>(2)</sup></b>	<b>9</b>		<b>9</b>
<u>Spot-rate:</u>			
Suezmax Tankers	10		10
Aframax Tankers	4	8	12
Long Range 2 Product Tankers	3	4	7
Medium Range Product Tankers	2		2
<b>Total Spot Fleet <sup>(3)</sup></b>	<b>19</b>	<b>12</b>	<b>31</b>
<b>Total Teekay Tankers Fleet</b>	<b>28</b>	<b>12</b>	<b>40</b>

- (1) Includes a VLCC that we own through a 50/50 joint venture with Wah Kwong Maritime Transport Holdings Limited (please refer to Note 6 - Investments in and advances to Equity Accounted Investments included in Item 18 Financial Statements in this Annual Report).
- (2) The number of time-charter out contracts scheduled to expire include five in 2015, and three in 2016, respectively, and one jointly owned VLCC time-charter out contract is scheduled to expire in 2018.
- (3) As at December 31, 2014, the four pooling arrangements in which we participate, and including vessels owned by other pool members, were comprised of a total of 25 Suezmax tankers, 31 modern Aframax tankers, 3 Aframax tankers over 15-year-old, 18 LR2 product tankers and 43 MR product tankers.

The following table provides additional information about our owned Suezmax-class oil tankers as of December 31, 2014, all of which are Bahamian flagged.

Vessel	Capacity (dwt)	Built	Employment	Daily Rate	Expiration of Charter
Ashkini Spirit	165,200	2003	Pool		
Ganges Spirit	159,500	2002	Pool		
Godavari Spirit	159,100	2004	Pool		
Iskmati Spirit	165,300	2003	Pool		
Kaveri Spirit	159,100	2004	Pool		

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Pinnacle Spirit	160,400	2008	Pool
Narmada Spirit	159,200	2003	Pool
Summit Spirit	160,500	2008	Pool
Yamuna Spirit	159,400	2002	Pool
Zenith Spirit	160,500	2009	Pool
<b>Total Capacity</b>	<b>1,608,200</b>		

The following table provides additional information about our owned Aframax-class oil tankers as of December 31, 2014, all of which are Bahamian flagged.

<b>Vessel</b>	<b>Capacity (dwt)</b>	<b>Built</b>	<b>Employment</b>	<b>Daily Rate</b>	<b>Expiration of Charter</b>
Americas Spirit	111,900	2003	Time charter	\$21,000	Sep 2015
Australian Spirit	111,900	2004	Time charter	\$21,000	Jan 2016
Axel Spirit	115,400	2004	Time charter	\$19,500	Dec 2016
Erik Spirit <sup>(1)</sup>	115,500	2005	Time charter	\$14,100	Jan 2015
Esther Spirit	115,400	2004	Time charter	\$16,500	Dec 2015
Everest Spirit	115,000	2004	Time charter	\$15,500	Apr 2016
Helga Spirit	115,500	2005	Time charter	\$16,750	Aug 2015
Kanata Spirit	113,000	1999	Pool		
Kareela Spirit	113,100	1999	Pool		
Kyeema Spirit	113,400	1999	Pool		
Matterhorn Spirit	114,800	2005	Spot		
<b>Total Capacity</b>	<b>1,254,900</b>				

(1) The Aframax tanker *Erik Spirit* completed a time-charter out contract and joined the Aframax RSA pool in January 2015.

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The following table provides additional information about our owned LR2 product-class oil tankers as of December 31, 2014, all of which are Bahamian flagged.

<b>Vessel</b>	<b>Capacity (dwt)</b>	<b>Built</b>	<b>Employment</b>	<b>Daily Rate</b>	<b>Expiration of Charter</b>
Donegal Spirit	105,200	2006	Pool		
Galway Spirit	105,200	2007	Pool		
Limerick Spirit	105,200	2007	Pool		
Total Capacity	315,600				

The following table provides additional information about our owned MR product-class oil tankers as of December 31, 2014, all of which are Bahamian flagged.

<b>Vessel</b>	<b>Capacity (dwt)</b>	<b>Built</b>	<b>Employment</b>	<b>Daily Rate</b>	<b>Expiration of Charter</b>
Hugli Spirit <sup>(1)</sup>	46,900	2005	Time charter	\$ 37,400	Feb 2015
Mahanadi Spirit	47,000	2000	Pool		
Teesta Spirit	46,900	2004	Pool		
Total Capacity	140,800				

(1) The charter rate on the *Hugli Spirit* includes approximately \$14,000 per day for the additional costs relating to Australian crew versus International crew.

The following table provides additional information about our VLCC-class oil tanker as of December 31, 2014, which is Hong Kong flagged.

<b>Vessel</b>	<b>Capacity (dwt)</b>	<b>Built</b>	<b>Employment</b>	<b>Daily Rate</b>	<b>Expiration of Charter</b>
Hong Kong Spirit <sup>(1)</sup>	319,000	2013	Time charter	\$ 37,500	Jul 2018

(1) The VLCC vessel, *Hong Kong Spirit*, is owned through a 50/50 joint venture. The charter rate on this vessel is subject to a profit sharing amount that is being calculated every six months.

Please read Note 8 - Long-Term Debt included in Item 18 Financial Statements included in this Annual Report for information with respect to major encumbrances against our vessels.

**Business Strategies**

Our primary business strategies include the following:

Expand our fleet through accretive acquisitions. Since our initial public offering, we have purchased 21 conventional tankers from Teekay Corporation at prices equal to their fair market values. In the future, we anticipate growing our fleet primarily through acquisitions of tankers from third parties, by securing additional third parties in-chartered vessels and by ordering newbuildings.

Tactically manage our mix of spot and charter contracts. We employ a chartering strategy that seeks to capture upside opportunities in the spot market while using fixed-rate time charters to reduce downside risks. We believe that our Manager's experience operating through cycles in the tanker spot market will assist us in employing this strategy and seeking to maximize operating results.

Increase cash flow by participating in the pooling arrangements. Through the participation of a significant number of our vessels in the Gemini Suezmax Pool, the Teekay Aframax Pools and the Taurus Tankers LR2 Pool, we believe that we benefit from Teekay Corporation's reputation and the scope of Teekay Corporation's operations. We believe that the cash flow we derive over time from operating some of our vessels in these pooling arrangements exceeds the amount we would otherwise derive by operating these vessels outside of the pooling arrangements due to higher vessel utilization and daily revenues. We also derive pool and vessel management income as a result of our August 2014 purchase of a 50% interest in TTOL, which includes Teekay Corporation's conventional tanker commercial and technical management operations and is the owner of interests in three of the pooling arrangements. We seek to increase this fee income by increasing the number of vessels participating in the applicable pooling arrangements and receiving management services from TTOL.

Provide superior customer service by maintaining high reliability, safety, environmental and quality standards. We believe that energy companies seek transportation partners that have a reputation for high reliability, safety, environmental and quality standards. We leverage our reputation for operational expertise and customer base to further expand these relationships with consistent delivery of superior customer service through our Manager.

#### **Our Chartering Strategy and Participation in the Gemini Suezmax Pool, Teekay Aframax Pools, Taurus Tankers LR2 Pool and Norient Product Pool**

**Chartering Strategy.** We operate our vessels in both the spot market and under time charters of varying lengths in an effort to maximize cash flow from our vessels based on our Manager's outlook for freight rates, oil tanker market conditions and global economic conditions. As of December 31, 2014, a total of 17 of our owned vessels and 12 time-chartered in vessels operated in the spot market through participation in Teekay managed pooling arrangements or on spot voyage charters. Ten of these operated in the Gemini Suezmax Pool, three of our owned vessels and seven time-chartered in vessel operated in the Teekay Aframax Pools, while three of our owned and four time-chartered in vessels operated in the Taurus Tankers LR2 Pool. In addition, one of our owned and one time-chartered in vessel operated in the spot market on

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voyage charters. As well, two of our MR vessels operated in the spot market through participation in the Norient Product Pool, which is managed by a third party unaffiliated with Teekay Corporation. As of December 31, 2014, eight of our vessels and one jointly-owned vessel operated under fixed-rate time-charter contracts. Our mix of vessels trading in the spot market or subject to fixed-rate time charters will change from time to time. Our Manager also may seek to hedge our spot exposure through the use of freight forward agreements or other financial instruments. Likewise, the managers of the pooling arrangements in which we participate may, with our approval, enter into fixed-rate time charters for vessels we include in those pooling arrangements, thereby decreasing spot-rate exposure without withdrawing the vessels from the pooling arrangements.

**The Gemini Suezmax Pool, the Teekay Aframax Pools, and the Taurus Tankers LR2 Pool.** As of December 31, 2014, and including our owned and time-chartered in vessels, the Gemini Suezmax Pool and Teekay Aframax Pools were comprised of 25 Suezmax and 34 Aframax crude tankers, respectively, and the Taurus Tankers LR2 Pool included 18 LR2 product tankers. Under the pooling arrangements, the aggregate revenues generated by the entire applicable pools are distributed to pool members, including us, pursuant to a pre-arranged weighting system based on actual earnings days each vessel is available during the applicable period and on each vessel's earnings capability based on its characteristics, speed and bunker consumption. The allocation for each vessel participating in the pool is established based on observations and historical consumption and performance measures of the individual vessel. Payments based on net cash flow applicable to each tanker are made on a monthly basis to pool participants and adjusted at standard intervals determined by each pool based on the weighting system. We have agreed with the respective pool managers and pool participants to include certain of our vessels trading on voyage charters into the pooling arrangements assuming the vessel meets the respective pooling criteria. For example, our Suezmax tankers that are operating on voyage charters with terms of less than one year are included in the Gemini Suezmax pool. Likewise, Aframax tankers and LR2 tankers on voyage charters with terms of 90 days or less participate in the Teekay Aframax Pools and the Taurus Tankers LR2 Pool, respectively. Please read Item 7 Major Shareholders and Related Party Transactions: Related Party Transactions Pooling Arrangements, for additional information about the Gemini Suezmax Pool, the Teekay Aframax Pools, and the Taurus Tankers LR2 Pool.

**Voyage Charters.** Tankers operating in the spot market typically are chartered for a single voyage, which may last up to several weeks. Spot market revenues may generate increased profit margins during times when tanker rates are increasing, while tankers operating under fixed-rate time charters generally provide more predictable cash flows. Under a typical voyage charter in the spot market, the shipowner is paid on the basis of moving cargo from a loading port to a discharge port. The shipowner is responsible for paying both vessel operating costs and voyage expenses, and the charterer is responsible for any delay at the loading or discharging ports. Voyage expenses are all expenses attributable to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Vessel operating expenses are incurred regardless of particular voyage details and include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. When the vessel is off hire, or not available for service, the vessel is unavailable to complete new voyage charters until the off hire is finalized and the vessel becomes available again for service. In addition, if the vessel is off hire while trading in a commercial pooling arrangement, the vessel will have those off hire days deducted from its monthly calculation of available days for the purpose of pool distributions. Under a voyage charter, the shipowner is generally required, among other things, to keep the vessel seaworthy, to crew and maintain the vessel and to comply with applicable regulations

**Time Charters.** A time charter is a contract for the use of a vessel for a fixed period of time at a specified daily rate. A customer generally selects a time charter if it wants a dedicated vessel for a period of time, and the customer is commercially responsible for the use of the vessel. Under a typical time charter, the shipowner provides crewing and other services related to the vessel's operation, the cost of which is included in the daily rate, while the customer is responsible for substantially all of the voyage expenses. When the vessel is off hire, the customer generally is not

required to pay the hire rate and the owner is responsible for all costs. Hire rate refers to the basic payment from the charterer for the use of the vessel. Under our time charters, hire is payable monthly in advance in U.S. Dollars. Hire payments may be reduced, or under some time charters the shipowner must pay liquidated damages, if the vessel does not perform to certain of its specifications, such as if the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount. When the vessel is off hire, or not available for service, the charterer generally is not required to pay the hire rate, and the shipowner is responsible for all costs, including the cost of fuel bunkers, unless the charterer is responsible for the circumstances giving rise to the lack of availability. A vessel generally will be deemed to be off hire if there is an occurrence preventing the full working of the vessel.

**Time-Chartering-in.** A time-charter in vessel is one that is contracted from another party for use by us for a fixed period of time at a specified daily rate. We may choose to place the time-chartered in vessel in a pooling arrangement if it meets the standards to participate in a pooling arrangement or to employ it on a fixed-rate time-charter out for the same period of time the vessel is chartered-in to us or for shorter depending on the market conditions and the Manager's outlook for the market. Under a typical time-charter in, the shipowner provides crewing and other services related to the vessel's operation, the cost of which is included in the daily hire rate. The customer is responsible for substantially all of the voyage-related expenses. When the vessel is off hire the customer generally is not required to pay the hire rate, and the shipowner is responsible for all costs, including the cost of fuel bunkers, unless the charterer is responsible for the circumstances giving rise to the lack of availability. A vessel generally will be deemed to be off hire if there is an occurrence preventing the full working of the vessel.

## **Industry and Competition**

We compete in the Suezmax (120,000 to 199,999 dwt) and Aframax (80,000 to 119,999 dwt) crude oil tanker markets. Our competition in the Aframax and Suezmax markets is also affected by the availability of other size vessels that compete in these markets. Suezmax size vessels and Panamax (55,000 to 79,999 dwt) size vessels can compete for many of the same charters for which our Aframax tankers compete; Aframax size vessels and VLCCs (200,000 to 319,999 dwt) can compete for many of the same charters for which our Suezmax tankers may compete. Because of their large size, VLCCs and Ultra Large Crude Carriers (320,000+ dwt) (or *ULCCs*) rarely compete directly with Aframax tankers, and ULCCs rarely compete with Suezmax tankers for specific charters. However, because VLCCs and ULCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax trades and of Suezmax vessels into Aframax trades would heighten the already intense competition.

We also compete in the LR2 (80,000 to 119,999 dwt) and MR (40,000 to 59,999 dwt) product tanker markets. Our competition in the LR2 and MR product tanker markets is affected by the availability of other size vessels that compete in these markets. Long Range 1 (LR1) (60,000-79,999 dwt) size vessels can compete for many of the same charters for which our LR2 tankers compete; LR1 and Handysize (25,000 – 39,999 dwt) vessels can compete for many of the same charters for which our MR tankers may compete.

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Seaborne transportation of crude oil and refined petroleum products are provided both by major energy companies (private as well as state-owned) and by independent ship owners. The desire of many major energy companies to outsource all or a portion of their shipping requirements has caused the number of conventional oil tankers owned by energy companies to decrease in the last 20 years. As a result of this trend, independent tanker companies now own or control a large majority of the international tanker fleet.

As of December 31, 2014, other large operators of Aframax tonnage (including newbuildings on order) included Malaysian International Shipping Corporation (approximately 48 Aframax vessels), Sovcomflot (approximately 42 vessels), the Navig8 Pool (approximately 26 vessels), and the Sigma Pool (approximately 26 vessels). Other large operators of Suezmax tonnage (including newbuildings on order) as of such date included the Stena Sonangol Pool (approximately 22 vessels), Nordic American Tankers (approximately 24 vessels), the Blue Fin Pool (approximately 19 vessels), Euronav (approximately 23 vessels), Scorpio (approximately 23 vessels), and Sovcomflot (approximately 16 vessels).

As of December 31, 2014, the largest operators of LR2 tonnage (including newbuildings on order) included the Navig8 LR2 pool (approximately 26 vessels), Ocean Tankers (approximately 12 vessels) and the Sigma Pool (approximately 10 vessels). As of December 31, 2014, the largest operators of MR tonnage (including newbuildings on order) included Scorpio Tankers (approximately 51 vessels), Torm (approximately 44 vessels), the Norient pool (approximately 47 vessels), Stena Bulk (approximately 40 vessels), the Handytankers Pool (approximately 31 vessels), Sovcomflot (approximately 26 vessels) and Diamond S Shipping (approximately 33 vessels).

Competition in both the crude and product tanker market is primarily based on price, location (for single-voyage or short-term charters), size, age, condition and acceptability of the vessel, oil tanker shipping experience and quality of ship operations, and the size of an operating fleet, with larger fleets allowing for greater vessel substitution, availability and customer service. Aframax and Suezmax tankers are particularly well-suited for short-haul and medium-haul crude oil routes; LR2 tankers are well-suited for long and medium-haul refined product routes while MR tankers are well-suited for short and medium-haul refined product routes.

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in oil tanker demand and oil tanker supply. The cyclical nature of the tanker industry causes significant increases or decreases in charter rates earned by operators of oil tankers. Because voyage charters occur in short intervals and are priced on a current, or spot, market rate, the spot market is more volatile than time charters and the tanker industry generally. In the past, there have been periods when spot rates declined below the operating cost of the vessels.

***Oil Tanker Demand.*** Demand for oil tankers is a function of several factors, including world oil demand and supply (which affect the amount of crude oil and refined products transported in tankers), and the relative locations of oil production, refining and consumption (which affects the distance over which the oil or refined products are transported).

Oil has been one of the world's primary energy sources for a number of decades. As of April 2015, the International Energy Agency (or *IEA*) estimated that oil consumption will increase from 92.5 million barrels per day (or mb/d) in 2014, to 93.6 mb/d in 2015 driven by increasing consumption in non-OECD countries. A majority of known oil reserves are located in regions far from major consuming regions, which contributes positively toward demand for oil tankers.

The distance over which crude oil or refined petroleum products is transported is determined by seaborne trading and distribution patterns, which are principally influenced by the relative advantages of the various sources of production and locations of consumption. Seaborne trading patterns are also periodically influenced by geopolitical events, such



as wars, hostilities and trade embargoes that divert tankers from normal trading patterns, as well as by inter-regional oil trading activity created by oil supply and demand imbalances. Historically, the level of oil exports from the Middle East has had a strong effect on the crude tanker market due to the relatively long distance between this supply source and typical discharge points. Over the past few years, the growing economies of China and India have increased and diversified their oil imports, resulting in an overall increase in transportation distance for crude tankers. Major consumers in Asia have increased their crude import volumes from longer-haul producers, such as those in the Atlantic Basin.

The limited growth in refinery capacity in developed nations, the largest consumers of oil in recent years, and increasing refinery capacity in the Middle East and parts of Asia where capacity surplus supports exports, have also altered traditional trading patterns and contributed to the overall increase in transportation distance for both crude tankers and products tankers.

**Oil Tanker Supply.** New Aframax, Suezmax, LR2 and MR tankers are generally expected to have a lifespan of approximately 25 to 30 years, based on estimated hull fatigue life. However, U.S. and international regulations require the earlier phase-out of existing vessels that are not double-hulled, regardless of their expected lifespan. As of December 31, 2014, the world Aframax crude tanker fleet consisted of 609 vessels, with an additional 45 Aframax crude oil tanker newbuildings on order for delivery through 2019; the world Suezmax crude tanker fleet consisted of 444 vessels, with an additional 58 Suezmax crude oil tanker newbuildings on order for delivery through 2017; the world LR2 product tanker fleet consisted of 258 vessels, with an additional 71 LR2 product tanker newbuildings on order through 2017; and the world MR product tanker fleet consisted of 1,412 vessels, with an additional 267 MR product tanker newbuildings on order through 2018. Currently, delivery of a vessel typically occurs within two to three years after ordering.

The supply of oil tankers is primarily a function of new vessel deliveries, vessel scrapping and the conversion or loss of tonnage. The level of newbuilding orders is primarily a function of newbuilding prices in relation to current and prospective charter market conditions. Another factor that affects tanker supply is the available shipyard capacity. The level of vessel scrapping activity is primarily a function of scrapping prices in relation to current and prospective charter market conditions and operating, repair and survey costs. Industry regulations also affect scrapping levels. Please read Regulations below. Demand for drybulk vessel and floating storage off-take units, to which tankers can be converted, strongly affects the number of tanker conversions.

For more than a decade, there has been a significant and ongoing shift toward quality in vessels and operations, as charterers and regulators increasingly focus on safety and protection of the environment. Since 1990, there has been an increasing emphasis on environmental protection through legislation and regulations such as OPA 90, International Maritime Organization (or *IMO*) regulations and protocols, and classification society procedures that demand higher quality tanker construction, maintenance, repair and operations. We believe that operators with proven ability to integrate these required safety regulations into their operations have a competitive advantage.

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**Safety, Management of Ship Operations and Administration**

Safety and environmental compliance are our top operational priorities. Our vessels are operated by our Manager in a manner intended to protect the safety and health of our employees, the general public and the environment. We and our Manager actively seek to manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. In 2007, our Manager introduced a behavior-based safety program called *Safety in Action* to further enhance the safety culture in our fleet. We are also committed to reducing our emissions and waste generation. In 2008, our Manager introduced the Quality Assurance and Training Officers (or *QATO*) Program to conduct rigorous internal audits of our processes and provide our seafarers with onboard training.

Teekay Corporation, through certain of its subsidiaries, provides technical management services for all of our vessels. Teekay Corporation has obtained through Det Norske Veritas (or *DNV*), the Norwegian classification society, approval of its safety management system as in compliance with the International Safety Management Code (or *ISM Code*), and this system has been implemented for all of our vessels. As part of Teekay Corporation's ISM Code compliance, all of the vessels' safety management certificates are maintained through ongoing internal audits performed by Teekay Corporation's certified internal auditors and intermediate audits performed by DNV.

Our Manager provides, through certain of its subsidiaries, expertise in various functions critical to our operations and access to human resources, financial and other administrative functions. Critical ship management functions that our Manager provides to us through its affiliates include:

vessel maintenance;

crewing;

purchasing;

shipyard supervision;

insurance; and

financial management services.

These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management.

All vessels are operated by our Manager under a comprehensive and integrated Safety Management System that complies with the ISM Code, the International Standards Organization's (or *ISO*) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, and Occupational Health and Safety Assessment Series (or *OHSAS*) 18001 and the new Maritime Labour Convention 2006 (MLC 2006) that became enforceable on August 20, 2013. The management system is certified by DNV. Although certification is valid for five years, compliance with the above

mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits as well as external verification audits by DNV and certain flag states.

In addition, Teekay Corporation's day-to-day focus on cost control is applied to our operations. Teekay Corporation and two other shipping companies participate in a purchasing alliance, Teekay Bergesen Worldwide, which leverages the purchasing power of the combined fleets, mainly in such commodity areas as lube oils, paints and other chemicals. Through our Manager, we benefit from this purchasing alliance.

### **Risk of Loss, Insurance and Risk Management**

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters, death or injury of persons and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, the transportation of crude oil and petroleum products is subject to the risk of spills and to business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. The occurrence of any of these events may result in loss of revenues or increased costs.

We carry hull and machinery (marine and war risks) and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of our business. Hull and machinery insurance covers loss of or damage to a vessel due to marine perils such as collision, grounding and weather. Protection and indemnity insurance indemnifies us against other liabilities incurred while operating vessels, including injury to the crew, third parties, cargo loss and pollution. The current maximum amount of our coverage for pollution is \$1 billion per vessel per incident. We also carry insurance policies covering war risks (including piracy and terrorism). None of our vessels are insured against loss of revenues resulting from vessel off-hire time, based on the cost of this insurance compared to our off-hire experience. We believe that current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution coverage. However, we cannot guarantee that all covered risks are adequately insured against, that any particular claim will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. More stringent environmental regulations at times in the past have resulted in increased costs for, and may result in the lack of availability of, insurance against the risks of environmental damage or pollution.

In our operations, we use Teekay Corporation's thorough risk management program which includes, among other things, risk analysis tools, maintenance and assessment programs, a seafarers competence training program, seafarers workshops and membership in emergency response organizations. We believe we benefit from Teekay Corporation's commitment to safety and environmental protection as certain of its subsidiaries assist us in managing our vessel operations.

Teekay Corporation has achieved certification under the standards reflected in ISO 9001 for quality assurance, ISO 14001 for environment management systems, Occupational Health and Safety Advisory Services 18001, and the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis.

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### **Flag, Classification, Audits and Inspections**

Our vessels are registered with reputable flag states, and the hull and machinery of all of our vessels have been classed by one of the major classification societies and members of the International Association of Classification Societies Ltd (or IACS): DNV, Lloyd's Register of Shipping or American Bureau of Shipping.

The applicable classification society certifies that the vessel's design and build conforms to the applicable class rules and meets the requirements of the applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a signatory. The classification society also verifies throughout the vessel's life that it continues to be maintained in accordance with those rules. In order to validate this, the vessels are surveyed by the classification society, in accordance to the classification society rules, which in the case of our vessels follows a comprehensive five-year special survey cycle, renewed every fifth year. During each five-year period the vessel undergoes annual and intermediate surveys, the scrutiny and intensity of which is primarily dictated by the age of the vessel. Because our vessels are modern and we have enhanced the resiliency of the underwater coatings of each vessel hull and marked the hull to facilitate underwater inspections by divers, their underwater areas are inspected in a dry dock at five-year intervals. In-water inspection is carried out during the second or third annual inspection (i.e. during an intermediate survey).

In addition to class surveys, the vessel's flag state also verifies the condition of the vessel during annual flag state inspections, either independently or by additional authorization to class. Also, port state authorities of a vessel's port of call are authorized under international conventions to undertake regular and spot checks of vessels visiting their jurisdiction.

Processes followed onboard are audited by either the flag state or the class society acting on behalf of flag state to ensure that they meet the requirements of the ISM Code. DNV typically carries out this task. We also follow an internal process of internal audits undertaken at each office and vessel annually.

We follow a comprehensive inspections scheme supported by our sea staff, shore-based operational and technical specialists and members of our QATO program. We carry out regular inspections, which help us to ensure that:

our vessels and operations adhere to our operating standards;

the structural integrity of the vessel is being maintained;

machinery and equipment is being maintained to give reliable service;

we are optimizing performance in terms of speed and fuel consumption; and

the vessel's appearance supports our brand and meets customer expectations.

Our customers also often carry out vetting inspections under the Ship Inspection Report Program, which is a significant safety initiative introduced by the Oil Companies International Marine Forum to specifically address concerns about sub-standard vessels. The inspection results permit charterers to screen a vessel to ensure that it meets

their general and specific risk-based shipping requirements.

We believe that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will generally lead to greater scrutiny, inspection and safety requirements on all vessels in the oil tanker markets and will accelerate the scrapping or phasing out of older vessels throughout these markets.

Overall, we believe that our relatively new, well-maintained and high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

## **Regulations**

### ***General***

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our vessels. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own will depend on a number of factors, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

### ***International Maritime Organization (or IMO)***

The IMO is the United Nations agency for maritime regulation. IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates. Under IMO regulations, and subject to limited exceptions, a tanker must be of double-hull construction in accordance with the requirements set out in these regulations, or be of another approved design ensuring the same level of protection against oil pollution. All of our tankers are double-hulled.

Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (or *CLC*). Under this convention, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g. crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner's actual fault or when the spill is caused by the owner's intentional or reckless conduct.

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Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

IMO regulations also include the International Convention for Safety of Life at Sea (or *SOLAS*), including amendments to SOLAS implementing the International Ship and Port Facility Security Code (or *ISPS*), the ISM Code, the International Convention on Load Lines of 1966. SOLAS provides rules for the construction of and the equipment required for commercial vessels and includes regulations for their safe operation. Flag states, which have ratified the convention and the treaty generally employ the classification societies, which have incorporated SOLAS requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, ISPS and other regulations, may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to or detention in some ports. For example, the U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and European Union ports. The ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the shipowner's development and maintenance of an extensive safety management system. Each of the existing vessels in our fleet is currently ISM Code-certified, and we expect to obtain safety management certificates for each newbuilding vessel upon delivery.

Annex VI to the IMO's International Convention for the Prevention of Pollution from Ships (*MARPOL*)(or *Annex VI*) sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits emissions of ozone depleting substances, emissions of volatile compounds from cargo tanks and the incineration of specific substances. Annex VI also includes a world-wide cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions.

The IMO has issued guidance regarding protecting against acts of piracy off the coast of Somalia. We comply within these guidelines.

In addition, the IMO has proposed (by the adoption in 2004 of the International Convention for the Control and Management of Ships' Ballast Water and Sediments (or the *Ballast Water Convention*)) that all tankers of the size we operate that were built starting in 2012 contain ballast water treatment systems to comply with the ballast water performance standard specified in the Ballast Water Convention, and that all other similarly sized tankers install water ballast treatment systems in order to comply with the ballast water performance standard from 2016. In the latter case, compliance is required not later than by their first intermediate or renewal survey in relation to the International Ballast Water Management Certificate, whichever occurs first, after the anniversary date of delivery of the relevant vessel in the year of compliance with the applicable standard. This convention has not yet entered into force, but when it becomes effective, we estimate that the installation of ballast water treatment systems on our tankers may cost between \$2 million and \$3 million per vessel.

The IMO has also developed an International Code for Ships Operating in Polar Waters (or *Polar Code*) which deals with matters regarding design, construction, equipment, operation, search and rescue and environmental protection in relation to ships operating in waters surrounding the two poles. The Polar Code includes both safety and environmental provisions and will be mandatory, with the safety provisions becoming part of SOLAS and the environmental provisions becoming part of MARPOL. In November 2014 the IMO's MSC adopted the Polar Code and the related amendments to SOLAS in relation to safety, while the IMO's Marine Environment Protection Committee

(or *MEPC*) is expected to adopt the environmental provisions of the Polar Code and associated amendments to MARPOL at its next session in 2015. Once adopted, the Polar Code is to enter into force on January 1, 2017.

***European Union (or EU)***

Like the IMO, the EU has adopted regulations phasing out single-hull tankers. All of our tankers are double-hulled. On May 17, 2011, the European Commission carried out a number of unannounced inspections, at the offices of some of the world's largest container line operators starting an antitrust investigation. We were not directly affected by this investigation and believe that we are compliant with antitrust rules. Nevertheless, it is possible that the investigation could be widened and new companies and practices come under scrutiny within the EU.

The EU has also adopted legislation (Directive 2009/16/EC on Port State Control as subsequently amended) that: bans from European waters manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities, in the preceding two years); creates obligations on the part of EU member port states to inspect minimum percentages of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies (Directive 2009/15/EC as amended by Directive 2014/111/EU of December 17, 2014).

Two new regulations were introduced by the European Commission in September 2010, as part of the implementation of the Port State Control Directive. These came into force on January 1, 2011 and introduce a ranking system (published on a public website and updated daily) displaying shipping companies operating in the EU with the worst safety records. The ranking is judged upon the results of the technical inspections carried out on the vessels owned by a particular shipping company. Those shipping companies that have the most positive safety records are rewarded by subjecting them to fewer inspections, whilst those with the most safety shortcomings or technical failings recorded upon inspection will in turn be subject to a greater frequency of official inspections to their vessels.

The EU has, by way of Directive 2005/35/EC, which has been amended by Directive 2009/123/EC created a legal framework for imposing criminal penalties in the event of discharges of oil and other noxious substances from ships sailing in its waters, irrespective of their flag. This relates to discharges of oil or other noxious substances from vessels. Minor discharges shall not automatically be considered as offences, except where repetition leads to deterioration in the quality of the water. The persons responsible may be subject to criminal penalties if they have acted with intent, recklessly or with serious negligence and the act of inciting, aiding and abetting a person to discharge a polluting substance may also lead to criminal penalties.

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The EU has adopted regulations requiring the use of low sulfur fuel. Currently, vessels are required to burn fuel with sulfur content not exceeding 1% (while within EU member states territorial seas, exclusive economic zones and pollution control zones that are included in SOx Emission Control Areas). Beginning January 1, 2015, vessels are required to burn fuel with sulfur content not exceeding 0.1% while within EU member states territorial seas, exclusive economic zones and pollution control zones that are included in SOX Emission Control Areas. Other jurisdictions have also adopted regulations requiring the use of low sulfur fuel. The California Air Resources Board (or *CARB*) requires vessels to burn fuel with 0.1% sulfur content or less within 24 nautical miles of California as of January 1, 2014. IMO regulations require that, as of January 1, 2015, all vessels operating within Emissions control Areas (or *ECAs*) worldwide must comply with 0.1% sulfur requirements. Currently, the only grade of fuel meeting this low sulfur content requirement is low sulfur marine gas oil (or *LSMGO*). Since July 1, 2010, the applicable sulfur content limits in the North Sea, the Baltic Sea and the English Channel sulfur control areas have been 1.00%. Other established ECAs under Annex VI to MARPOL are the North American ECA and the United States Caribbean Sea ECA. Certain modifications were completed on our Suezmax tankers in order to optimize operation on LSMGO of equipment originally designed to operate on Heavy Fuel Oil (or *HFO*), and to ensure our compliance with the Directive. In addition, LSMGO is more expensive than HFO and this impacts the costs of operations. However, for vessels employed on fixed-term business, all fuel costs, including any increases, are borne by the charterer.

The EU has recently adopted Regulation (EU) No 1257/2013 which imposes rules regarding ship recycling and management of hazardous materials on vessels. The Regulation sets out requirements for the recycling of vessels in an environmentally sound manner at approved recycling facilities, so as to minimize the adverse effects of recycling on human health and the environment. The Regulation also contains rules to control and properly manage hazardous materials on vessels and prohibits or restricts the installation or use of certain hazardous materials on vessels. The Regulation aims at facilitating the ratification of the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships adopted by the IMO in 2009 (which has not entered into force). It applies to vessels flying the flag of a Member State. In addition, certain of its provisions also apply to vessels flying the flag of a third country calling at a port or anchorage of a Member State. For example, when calling at a port or anchorage of a Member State, the vessels flying the flag of a third country will be required, amongst other things, to have on board an inventory of hazardous materials which complies with the requirements of the Regulation and to be able to submit to the relevant authorities of that Member State a copy of a statement of compliance issued by the relevant authorities of the country of their flag and verifying the inventory. The Regulation is to apply not earlier than December 31, 2015 and not later than December 31, 2018, although certain of its provisions are applicable from December 31, 2014 and certain others are to apply from December 31, 2020.

***United States***

The United States has enacted an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 (or *OPA 90*) and the Comprehensive Environmental Response, Compensation and Liability Act (or *CERCLA*). OPA 90 affects all owners, operators, and bareboat charterers, whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States. CERCLA applies to the discharge of hazardous substances rather than oil and imposes strict joint and several liability upon the owners, operators or bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances. We believe that petroleum products should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on vessels might fall within its scope.

Under OPA 90, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war



and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

natural resources damages and the related assessment costs;

real and personal property damages;

net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage;

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and

loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties in an amount it periodically updates. The liability limits do not apply if the incident was proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. Liability under CERCLA is also subject to limits unless the incident is caused by gross negligence, willful misconduct, or a violation of certain regulations. We currently maintain for each of our vessel's pollution liability coverage in the maximum coverage amount of \$1 billion per incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

Under OPA 90, with limited exceptions, all newly built or converted tankers delivered after January 1, 1994 and operating in U.S. waters must be double-hulled. All of our tankers are double-hulled.

OPA 90 also requires owners and operators of vessels to establish and maintain with the United States Coast Guard (or the *Coast Guard*) evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The Coast Guard has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternative method subject to approval by the Coast Guard. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of

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financial responsibility. Teekay Corporation has complied with the Coast Guard regulations by obtaining financial guaranties from one of its subsidiaries covering our vessels. If other vessels in our fleet trade into the United States in the future, we expect to obtain guaranties from third-party insurers.

OPA 90 and CERCLA permit individual U.S. states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states require state-specific evidence of financial responsibility and vessel response plans. We intend to comply with all applicable state regulations in the ports where our vessels call.

Owners or operators of vessels, including tankers, operating in U.S. waters are required to file vessel response plans with the Coast Guard, and their tankers are required to operate in compliance with their Coast Guard approved plans. Such response plans must, among other things:

address a worst case scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a worst case discharge ;

describe crew training and drills; and

identify a qualified individual with full authority to implement removal actions.

We have filed vessel response plans with the Coast Guard and have received its approval of such plans. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

OPA 90 and CERCLA do not preclude claimants from seeking damages resulting from the discharge of oil and hazardous substances under other applicable law, including maritime tort law. The application of this doctrine varies by jurisdiction.

The U.S. Clean Water Act also prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above.

Our vessels that discharge certain effluents, including ballast water, in U.S. waters must obtain a Clean Water Act permit from the Environmental Protection Agency (or *EPA*) titled the Vessel General Permit and comply with a range of effluent limitations, best management practices, reporting, inspections and other requirements. The current Vessel General Permit incorporates Coast Guard requirements for ballast water exchange and includes specific technology-based requirements for vessels, and includes an implementation schedule to require vessels to meet the ballast water effluent limitations by the first drydocking after January 1, 2014 or January 1, 2016, depending on the vessel size. Vessels that are constructed after December 1, 2013 are subject to the ballast water numeric effluent limitations. Several U.S. states have added specific requirements to the Vessel General Permit and, in some cases, may require vessels to install ballast water treatment technology to meet biological performance standards.

### ***Greenhouse Gas Regulation***

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (or the *Kyoto Protocol*) entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding, but is intended to pave the way for a comprehensive, international treaty on climate change. In July 2011 the IMO adopted regulations imposing technical and operational measures for the reduction of greenhouse gas emissions. These new regulations formed a new chapter in Annex VI and became effective on January 1, 2013. The new technical and operational measures include the Energy Efficiency Design Index, which is mandatory for newbuilding vessels, and the Ship Energy Efficiency Management Plan, which is mandatory for all vessels. In addition, the IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. In October 2014, the IMO's MEPC agreed in principle to develop a system of data collection regarding fuel consumption of ships. The EU also has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from vessels, and individual countries in the EU may impose additional requirements. The EU is currently considering a proposal for a regulation establishing a system of monitoring, reporting and verification of greenhouse gas shipping emissions (or *MRV system*). The proposed MRV system may be the precursor to a market-based mechanism to be adopted in the future. In the United States, the EPA issued an endangerment finding regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. In addition, climate change initiatives are being considered in the United States Congress and by individual states. Any passage of new climate control legislation or other regulatory initiatives by the IMO, EU, the United States or other countries or states where we operate that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business that we cannot predict with certainty at this time.

### ***Vessel Security Regulation***

The ISPS code was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of the ISPS code is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and MTSA.

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### **C. Organizational Structure**

As of December 31, 2014, Teekay Corporation (NYSE: TK), through its 100%-owned subsidiary Teekay Holdings Ltd., had a 26.2% economic interest in us through its ownership of 12.6 million of our shares of Class A common stock and 16.7 million shares of our Class B common stock.

Our shares of Class A common stock entitle the holders thereof to one vote per share and our shares of Class B common stock entitle the holders thereof to five votes per share, subject to a 49% aggregate Class B common stock voting power maximum. As such, we are controlled by Teekay Corporation. Teekay Corporation also controls its public subsidiaries Teekay LNG Partners L.P. (NYSE: TGP) and Teekay Offshore Partners L.P. (NYSE: TOO).

Please read Exhibit 8.1 to this Annual Report for a list of our subsidiaries as of December 31, 2014.

### **D. Property, Plant and Equipment**

We believe that our well-maintained and high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

Our vessels are regularly inspected by our seafaring staff, who perform much of the necessary routine maintenance. Shore-based operational and technical specialists also inspect our vessels on a regular basis. Upon completion of each inspection, action plans are developed to address any items requiring improvement. All action plans are monitored until they are completed. The objectives of these inspections are to:

ensure adherence to our operating standards;

maintain the structural integrity of the vessel;

maintain machinery and equipment to give full reliability in service;

optimize performance in terms of speed and fuel consumption; and

ensure the vessel's appearance will support our reputation and meet customer expectations.

Other than our vessels, we do not have any material property. Please see Item 4. Information on the Company: Note B

Our Fleet for a description of our vessels and Item 18. Financial Statements: Note 8 Long-Term Debt for information about major encumbrances against our vessels.

### **E. Taxation of the Company**

*The following discussion is a summary of the principal United States and Marshall Islands tax laws applicable to us. The following discussion of tax matters, as well as the conclusions regarding certain issues of tax law that are reflected in such discussion, are based on current law. No assurance can be given that changes in or interpretation of existing laws will not occur or will not be retroactive or that anticipated future factual matters and circumstances will*

*in fact occur. Our views have no binding effect or official status of any kind, and no assurance can be given that the conclusions discussed below would be sustained if challenged by taxing authorities.*

## **1. United States Taxation**

The following is a discussion of the expected material U.S. federal income tax considerations applicable to us. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (or the *Code*), legislative history, applicable U.S. Treasury Regulations (or *Treasury Regulations*), judicial authority and administrative interpretations, all as in effect on the date of this Annual Report, and which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

***Taxation as a Corporation.*** We are taxed as a corporation for U.S. federal income tax purposes. As such, we are subject to U.S. federal income tax on our income to the extent it is from U.S. sources or otherwise is effectively connected with the conduct of a trade or business in the United States as discussed below.

***Taxation of Operating Income.*** A significant portion of our gross income will be attributable to the transportation of crude oil and related products. For this purpose, gross income attributable to transportation (or *Transportation Income*) includes income derived from, or in connection with, the use (or hiring or leasing for use) of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes both time-charter and bareboat-charter income.

Fifty percent (50%) of Transportation Income attributable to transportation that either begins or ends, but that does not both begin and end, in the United States (or *U.S. Source International Transportation Income*) is considered to be derived from sources within the United States. Transportation Income attributable to transportation that both begins and ends in the United States (or *U.S. Source Domestic Transportation Income*) is considered to be 100% derived from sources within the United States. Transportation Income attributable to transportation exclusively between non-U.S. destinations is considered to be 100% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally will not be subject to U.S. federal income tax.

Based on our current operations, a substantial portion of our Transportation Income is from sources outside the United States and not subject to U.S. federal income tax. In addition, we believe that we have not earned any U.S. Source Domestic Transportation Income, and we expect that we will not earn any such income in future years. However, certain of our activities give rise to U.S. Source International Transportation Income. Unless the exemption from U.S. taxation under Section 883 of the Code (or the *Section 883 Exemption*) applies, our U.S. Source International Transportation Income generally will be subject to U.S. federal income taxation under either the net basis and branch profits taxes or the 4% gross basis tax, each of which is discussed below.

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***The Section 883 Exemption*** . In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (or the *Section 883 Regulations*), it will not be subject to the net basis and branch profits taxes or 4% gross basis tax described below on its U.S. Source International Transportation Income. As discussed below, we believe that under our current ownership structure, the Section 883 Exemption will apply and we will not be taxed on our U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

A non-U.S. corporation will qualify for the Section 883 Exemption if, among other things, it (i) is organized in a jurisdiction outside the United States that grants an exemption from tax to U.S. corporations on international Transportation Income (or an *Equivalent Exemption*), (ii) satisfies one of three ownership tests (or *Ownership Tests*) described in the Section 883 Regulations, and (iii) meets certain substantiation, reporting and other requirements (or the *Substantiation Requirements*).

We are organized under the laws of the Republic of The Marshall Islands. The U.S. Treasury Department has recognized the Republic of The Marshall Islands as a jurisdiction that grants an Equivalent Exemption. We also believe that we will be able to satisfy the Substantiation Requirements necessary to qualify for the Section 883 Exemption. Consequently, our U.S. Source International Transportation Income (including for this purpose, any such income earned by our subsidiaries that have properly elected to be treated as partnerships or disregarded as entities separate from us for U.S. federal income tax purposes) will be exempt from U.S. federal income taxation provided we satisfy the Ownership Test. We believe that we should satisfy the Ownership Test because our stock is primarily and regularly traded on an established securities market in the United States within the meaning of Section 883 of the Code and the Section 883 Regulations. We can give no assurance, however, that changes in the ownership of our stock subsequent to the date of this report will permit us to continue to qualify for the Section 883 exemption.

***The Net Basis and Branch Profits Taxes.*** If the Section 883 Exemption does not apply, our U.S. Source International Transportation Income may be treated as effectively connected with the conduct of a trade or business in the United States (or *Effectively Connected Income*) if we have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of income derived from bareboat charters, is attributable to a fixed place of business in the United States. Based on our current operations, none of our potential U.S. Source International Transportation Income is attributable to regularly scheduled transportation or is derived from bareboat charters attributable to a fixed place of business in the United States. As a result, we do not anticipate that any of our U.S. Source International Transportation Income will be treated as Effectively Connected Income. However, there is no assurance that we will not earn income pursuant to regularly scheduled transportation or bareboat charters attributable to a fixed place of business in the United States in the future, which would result in such income being treated as Effectively Connected Income.

U.S. Source Domestic Transportation Income generally will be treated as Effectively Connected Income. However, we do not anticipate that any of our income has been or will be U.S. Source Domestic Transportation Income.

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the highest statutory rate currently is 35%), and a 30% branch profits tax imposed under Section 884 of the Code. In addition, a branch interest tax could be imposed on certain interest paid or deemed paid by us.

On the sale of a vessel that has produced Effectively Connected Income, we generally would be subject to the net basis and branch profits taxes with respect to our gain not in excess of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles.

**The 4% Gross Basis Tax.** If the Section 883 Exemption does not apply and we are not subject to the net basis and branch profit taxes described above, we would be subject to a 4% U.S. federal income tax on our gross U.S. Source International Transportation Income, without benefit of deductions. For 2015, we estimate that the U.S. federal income tax on such U.S. Source International Transportation Income would be approximately \$1.2 million if the Section 883 Exemption does not apply, based on the amount of U.S. Source International Transportation Income we earned for 2014. The amount of such tax for which we are liable for any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

## **2. Marshall Islands Taxation**

Because we and our controlled affiliates do not, and we do not expect that we and our controlled affiliates will, conduct business or operations in the Republic of the Marshall Islands, neither we nor our controlled affiliates are subject to income, capital gains, profits or other taxation under current Marshall Island law. As a result, distributions by controlled affiliates to us are not subject to Marshall Islands taxation.

## **3. Other Taxation**

We and our subsidiaries are subject to taxation in certain non-U.S. jurisdictions because we or our subsidiaries are either organized, or conduct business or operations, in such jurisdictions, but, we do not expect any such tax to be material. However, we cannot assure this result as tax laws in these or other jurisdictions may change or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability.

## **Item 4A. Unresolved Staff Comments**

None.

## **Item 5. Operating and Financial Review and Prospects**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.*

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**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**General**

Our business is to own oil and product tankers and we employ a chartering strategy that seeks to capture upside opportunities in the tanker spot market while using fixed-rate time charters to reduce downside risks. Historically, the tanker industry has experienced volatility in profitability due to changes in the supply of, and demand for, tanker capacity. Tanker supply and demand are each influenced by several factors beyond our control. We were formed in October 2007 by Teekay Corporation (NYSE: TK) (*Teekay*), a leading provider of marine services to the global oil and gas industries and the world's largest operator of medium-sized oil tankers, and we completed our initial public offering in December 2007.

Through the participation of some of our vessels in pooling arrangements, we expect to benefit from Teekay's reputation and the scope of its operations in increasing our cash flows. Our mix of vessels trading in the spot market or subject to fixed-rate time charters will change from time to time. Teekay currently holds a majority of the voting power of our common stock, which includes Class A common stock and Class B common stock.

Commencing in 2013, our dividend policy is to distribute to our stockholders a fixed quarterly dividend of \$0.03 per share (\$0.12 per share annually). Prior to 2013, we distributed to our stockholders on a quarterly basis all of our Cash Available for Distribution, subject to any reserves the Board of Directors determined were required for the prudent conduct of our business. *Cash Available for Distribution* represented net (loss) income, plus depreciation and amortization, unrealized losses from derivatives, non-cash items and any write-offs or other non-recurring items, less unrealized gains from derivatives and net income attributable to the historical results of vessels acquired by us from Teekay, prior to their acquisition by us, for the period when these vessels were owned and operated by Teekay. Our dividend policy is reviewed by our Board of Directors from time to time.

**Significant Developments in 2014 and 2015**

**Public Share Issuance**

In December 2014, we issued 20.0 million shares of Class A common stock in a public offering and 4.2 million shares of Class A common stock to Teekay in a concurrent private placement, at a price of \$4.80 per share for gross proceeds of \$116.0 million (net proceeds of \$111.2 million). In connection with this offering, we granted the underwriters a 30-day option to purchase up to an additional 3 million shares of Class A common stock. The underwriters exercised this option in full and on January 2, 2015, we issued a further 3 million shares of Class A common stock for gross proceeds of \$14.4 million (net proceeds of \$13.7 million). We used the proceeds from the issuance to acquire modern second hand tankers, as described below, and for general corporate purposes.

**Vessel Purchase Commitments**

In December 2014, we signed an agreement to acquire one 2008-built Aframax tanker for the purchase price of \$37.0 million and placed \$3.7 million in an escrow account in connection with this purchase. In December 2014, we also signed agreements to acquire four modern LR2 vessels for a total purchase price of \$193.3 million. We took delivery of three and two of these vessels in February and March 2015, respectively. Please see Item 18 – Financial Statements: Note 20 – Subsequent Events.

**Investment in Tanker Investments Ltd. (TIL)**



In January 2014, we and Teekay jointly created TIL, which seeks to opportunistically acquire, operate, and sell modern secondhand tankers to benefit from an expected recovery of the tanker market. TIL completed a \$250 million equity private placement in which we and Teekay co-invested \$25 million each for a combined 20% initial ownership in the new company. In addition, we each received a stock purchase warrant to acquire up to an additional 750,000 shares of TIL's common stock, linked to TIL's future share price performance. In March 2014, TIL completed a \$175 million initial public offering and listed its shares on the Oslo Stock Exchange, which reduced our ownership interest in TIL from 10.0% to 6.5%.

In October 2014, we purchased in the open market an additional 0.9 million common shares in TIL, representing 2.43% of the then outstanding common shares of TIL. We acquired these shares at a price of NOK 69 per share, or a purchase price of \$10.0 million. Following completion of the purchase, we held 3.4 million common shares in TIL, representing 8.94% of the then outstanding common shares of TIL. As a result of a TIL share repurchase program, as of December 31, 2014, we owned 9.29% of TIL's common stock.

As of December 31, 2014, TIL had completed the acquisition of two 2010-built VLCC vessels from us, four 2009-built Suezmax tankers from Teekay Corporation and six 2009, 2010 and 2011-built Aframax tankers and two 2012-built coated Aframax vessels from third parties. As of December 31, 2014, TIL had signed an agreement to acquire four 2009-built and two 2010-built Suezmax tankers from a third party, which are expected to deliver in the first half of 2015, which will bring the total number of vessels owned by TIL to 20.

#### **Acquisition of Teekay's Commercial and Technical Operations (TTOL)**

On August 1, 2014, we purchased from Teekay a 50% interest in TTOL, which owns conventional tanker commercial management and technical management operations, including direct ownership in three commercially managed tanker pools, for an aggregate price of approximately \$23.5 million, including net working capital. As consideration for this acquisition, we issued to Teekay 4.2 million Class B common shares, which had an approximate value of \$17 million, or \$4.03 per share, on the acquisition closing date. In addition, we reimbursed Teekay for \$6.5 million of working capital we assumed from Teekay in connection with the purchase.

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### **VLCC Mortgage Loan Resolution and Sale of VLCCs to TIL**

In March 2014, we exercised our rights under security documentation to realize the amounts owed under our investment in term loans and assumed full ownership of two 2010-built VLCC vessels, which previously secured our investment in the term loans. At the time of our assumption of ownership, these vessels had a fair value of approximately \$144 million, which exceeded the carrying value of the loans. As a result, in the first quarter of 2014 we recognized \$9.1 million of interest income owing under the loans.

In May 2014, we sold the two wholly-owned subsidiaries, each of which owned one of the VLCCs, to TIL for aggregate proceeds of \$154 million, plus related working capital on closing. We recognized a \$10 million gain on the sale of the VLCCs in the second quarter of 2014.

### **Additional Time Chartered-in Vessels**

During the year ended December 31, 2014, we entered into four new in-charter contracts for LR2 vessels and seven new in-charter contracts for Aframax vessels, which were delivered at various times during the year. During the year ended December 31, 2014, we also exercised an option to extend an in-charter contract for one Aframax tanker. These contracts brought our total number of time chartered-in vessels to 12 as of December 31, 2014, increasing our exposure to the spot tanker market.

### **Commencement of Legal Action for Damages**

On April 8, 2013, we entered into agreements with STX Offshore & Shipbuilding Co., Ltd (or *STX*) of South Korea to construct four, fuel-efficient 113,000 dead-weight tonne LR2 product tanker newbuildings plus options to order up to an additional 12 vessels. The payment of our first shipyard installment was contingent on us receiving acceptable refund guarantees for the shipyard installment payments. In May 2013, STX commenced a voluntary financial restructuring with its lenders, and as a result, STX's refund guarantee applications were temporarily suspended. In October and November 2013, we exercised our options to order eight additional newbuildings, in aggregate, under option agreements relating to the original STX LR2 shipbuilding agreements signed in April 2013. STX did not produce shipbuilding contracts within the specified timeframe of the option declarations and, informed us that there was no prospect of the refund guarantees being provided under any of the firm or option agreements. Therefore, STX is in breach of the option agreements. In December 2013, we terminated the newbuilding agreements and in February 2014, we terminated the option agreements. In February 2014, we commenced a legal action against STX for damages. In November 2014, we placed \$0.6 million into an escrow account as cash security pending the resolution of this matter.

### **Our Charters**

We generate revenues by charging customers for the transportation of their crude oil using our vessels. Historically, these services generally have been provided under the following basic types of contractual relationships:

Voyage charters participating in pooling arrangements are charters for shorter intervals that are priced on a current or spot market rate then adjusted for pool participation based on predetermined criteria; and

Time charters, whereby vessels are chartered to customers for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates or current market rates.

The table below illustrates the primary distinctions among these types of charters and contracts:

	<b>Voyage Charter</b>	<b>Time Charter</b>
Typical contract length	Single voyage	One year or more
Hire rate basis <sup>(1)</sup>	Varies	Daily
Voyage expenses <sup>(2)</sup>	We pay	Customer pays
Vessel operating expenses <sup>(3)</sup>	We pay	We pay
Off hire <sup>(4)</sup>	Customer does not pay	Customer does not pay

(1) *Hire* rate refers to the basic payment from the charterer for the use of the vessel.

(2) Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions.

(3) Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses.

(4) *Off hire* refers to the time a vessel is not available for service.

#### **Important Financial and Operational Terms and Concepts**

We use a variety of financial and operational terms and concepts when analyzing our performance. These include the following:

**Revenues.** Revenues primarily include revenues from time charters, voyage charters, pool arrangements, and interest income from investment in term loans. Revenues are affected by hire rates and the number of days a vessel operates. Revenues are also affected by the mix of our business between time charters, voyage charters and vessels operating in pool arrangements. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

**Voyage Expenses.** Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the ship owner under voyage charters and the customer under time charters.

**Net Revenues.** Net revenues represent revenues less voyage expenses. Because the amount of voyage expenses we incur for a particular charter depends upon the type of the charter, we use net revenues to improve the comparability between periods of reported revenues that are

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generated by the different types of charters and contracts. We principally use net revenues, a non-GAAP financial measure, because we believe it provides more meaningful information to us about the deployment of our vessels and their performance than does revenues, the most directly comparable financial measure under United States generally accepted accounting principles (or *GAAP*).

***Vessel Operating Expenses.*** We are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. The two largest components of our vessel operating expenses are crew costs and repairs and maintenance. We expect these expenses to increase as our fleet matures and to the extent that it expands.

***Income from Vessel Operations.*** To assist us in evaluating our operations, we analyze the income we receive after deducting operating expenses, but prior to interest expense and interest income, realized and unrealized gains and losses on derivative instruments, equity income and other expenses.

***Dry docking.*** We must periodically dry dock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. Generally, we dry dock each of our vessels every two and a half to five years, depending upon the age of the vessel. We capitalize a substantial portion of the costs incurred during dry docking and amortize those costs on a straight-line basis from the completion of a dry docking over the estimated useful life of the dry dock. We expense, as incurred, costs for routine repairs and maintenance performed during dry dockings that do not improve or extend the useful lives of the assets. The number of dry dockings undertaken in a given period and the nature of the work performed determine the level of dry-docking expenditures.

***Depreciation and Amortization.*** Our depreciation and amortization expense typically consists of charges related to the depreciation of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of our vessels and charges related to the amortization of dry-docking expenditures over the estimated number of years to the next scheduled dry docking.

***Time-Charter Equivalent (TCE) Rates.*** Bulk shipping industry freight rates are commonly measured in the shipping industry at the net revenues level in terms of time-charter equivalent (or *TCE*) rates, which represent net revenues divided by revenue days. We calculate TCE rates as net revenue per revenue day before related-party pool management fees and pool commissions, and off-hire bunker expenses.

***Revenue Days.*** Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with major repairs, dry dockings or special or intermediate surveys. Consequently, revenue days represents the total number of days available for the vessel to earn revenue. Idle days, which are days when the vessel is available for the vessel to earn revenue yet is not employed, are included in revenue days. We use revenue days to explain changes in our net revenues between periods.

***Average Number of Ships.*** Historical average number of ships consists of the average number of vessels that were in our possession during a period. We use average number of ships primarily to highlight changes in vessel operating expenses and depreciation and amortization.

## **Items You Should Consider When Evaluating Our Results**

You should consider the following factors when evaluating our historical financial performance and assessing our future prospects:

**Our financial results reflect the results of the interests in vessels acquired from Teekay for all periods the vessels were under common control.** During 2012, we acquired four Suezmax tankers, three Aframax tankers, three LR2 product tankers and three MR product tankers from Teekay (which we refer to collectively as the *2012 Acquired Business*). The acquisition of these vessels was deemed to be a business acquisition between entities under common control. Accordingly, we have accounted for this transaction in a manner similar to the pooling of interests method. Under this method of accounting our financial statements, for periods prior to the date the interests in these vessels were actually acquired by us, are retroactively adjusted to include the results of these acquired vessels. The periods retroactively adjusted include all periods that we and the acquired vessels were both under common control of Teekay and had begun operations. Our statement of loss for December 31, 2012 includes the 2012 Acquired Business for the periods it was under common control of Teekay prior to the acquisition by us. All financial or operational information contained herein for the periods prior to the date the interests in these vessels were actually acquired by us, and during which we and the applicable vessels were under common control of Teekay, are retroactively adjusted to include the results of these acquired vessels and are collectively referred to as the *Dropdown Predecessor* .

**Our voyage revenues are affected by cyclicity in the tanker markets.** The cyclical nature of the tanker industry causes significant increases or decreases in the revenue we earn from our vessels, particularly those we trade in the spot market.

**Tanker rates also fluctuate based on seasonal variations in demand.** Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere but weaker in the summer months as a result of lower oil consumption in the northern hemisphere and increased refinery maintenance. In addition, unpredictable weather patterns during the winter months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, revenues generated by our vessels have historically been weaker during the quarters ended June 30 and September 30, and stronger in the quarters ended December 31 and March 31.

**Vessel operating and other costs are facing industry-wide cost pressures.** The shipping industry continues to experience a global manpower shortage of qualified seafarers in certain sectors due to growth in the world fleet and competition for qualified personnel. Going forward, there may be significant increases in crew compensation as vessel and officer supply dynamics continue to change. In addition, factors such as pressure on commodity and raw material prices, as well as changes in regulatory requirements could also contribute to operating expenditure increases. We continue to take action aimed at improving operational efficiencies, and to temper the effect of inflationary and other price escalations; however increases to operational costs are still likely to occur in the future.

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*The amount and timing of dry dockings of our vessels can significantly affect our revenues between periods.* Our vessels are normally off-hire when they are being dry docked. We had nine vessels dry dock in 2014, compared to seven vessels which dry docked in 2013 and one vessel which started dry docking in 2013 and finished in 2014 and four vessels which dry docked in 2012. The total number of off-hire days relating to dry dockings during the years ended December 31, 2014, 2013 and 2012 were 292, 218 and 78, respectively. For our current fleet, there are seven vessels scheduled to dry dock in 2015.

**Results of Operations**

In accordance with GAAP, we report gross revenues in our consolidated statements of income (loss) and include voyage expenses among our operating expenses. However, ship-owners base economic decisions regarding the deployment of their vessels upon anticipated TCE rates, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time-charter contracts the customer usually pays the voyage expenses, while under voyage charters the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Accordingly, the discussion of revenue below focuses on net revenues and TCE rates where applicable.

**Year Ended December 31, 2014 versus Year Ended December 31, 2013**

The following table presents our operating results for the years ended December 31, 2014 and 2013 and compares net revenues, a non-GAAP financial measure, for those periods to revenues, the most directly comparable GAAP financial measure.

(in thousands of U.S. dollars)	Year Ended December 31,	
	2014	2013
Revenues	226,475	162,410
Interest income from investment in term loans	9,118	7,677
Less: voyage expenses	(9,984)	(8,337)
Net revenues	225,609	161,750
Vessel operating expenses	(93,022)	(91,667)
Time-charter hire expense	(22,160)	(6,174)
Depreciation and amortization	(50,152)	(47,833)
General and administrative	(11,959)	(12,594)
Gain (loss) on sale of vessels	9,955	(71)
Income from vessel operations	58,271	3,411
Interest expense	(8,741)	(10,023)
Interest income	287	158
Realized and unrealized loss on derivative instruments	(1,712)	(1,524)
Equity income	5,228	854
Other income (expenses)	3,809	(1,014)
Net income (loss)	57,142	(8,138)

**Tanker Market**

Crude tanker spot rates strengthened considerably during 2014, with rates at the end of the year averaging the highest for a fourth quarter since 2008. Demand for crude oil improved throughout 2014 as positive fleet fundamentals and changing trade patterns were coupled with a near 50% drop in the price of crude oil. The drop in the price of oil was due to supply exceeding demand by close to 0.8 million barrels per day (*mb/d*) and a decision by OPEC in November 2014 to not cut production in favour of continuing production at around 30 *mb/d*.

Lower oil prices have encouraged the filling of both strategic and commercial reserves, particularly in China where the government continues to fill the second stage of its Strategic Petroleum Reserve. In addition, refineries have responded to low oil prices by increasing throughput in order to take advantage of improved refining margins. Further, the fall in the price of oil has translated into a reduction in bunker prices, which has been positive for tanker earnings by lowering voyage operating costs.

In the product tanker sector, earnings improved during 2014 over 2013 levels, and by year end averaged the highest for a fourth quarter since 2008. LR2 rates have been supported by record high levels of Asian naphtha imports from the West, coupled with an increase in long-haul product exports as new refineries in the Middle East ramp up production. The reduction in global oil prices has also been positive for the LR2 trade, as lower naphtha prices in relation to liquefied petroleum gas (*LPG*) has led some petrochemical plants to process more naphtha instead of *LPG*.

The global tanker fleet grew by 7.2 million deadweight tonnes (*mdwt*), or 1.4%, in 2014. The majority of the fleet growth during the year was in the product sectors, whereas the crude tanker fleet grew by just 2.2 *mdwt*, or 0.7%. The global Suezmax and uncoated Aframax fleets reduced in size by three vessels, or 0.6%, and 19 vessels, or 2.9%, respectively. Looking ahead, the global tanker fleet is forecasted to grow by only 1.7% in 2015, with growth again weighted towards the product sectors and another year of negative fleet growth expected for the Suezmax and uncoated Aframax sectors.

Global oil demand, based on an average of forecasts from the International Energy Agency, the Energy Information Administration, and OPEC, is forecasted to grow by 1.0 *mb/d* in 2015, which is 0.1 *mb/d* higher than demand growth in 2014. Non-OECD countries, and China in particular, are expected to account for the majority of oil demand growth in 2015. The call on OPEC is expected to grow by 0.1 *mb/d* in 2015, which could be positive for tanker tonne-mile demand in 2015.

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The outlook for crude tanker fleet utilization and spot tanker rates is expected to remain positive in 2015 based on a shrinking mid-size crude tanker fleet and a continued increase in tanker tonne-mile demand as more crude oil moves on long-haul trades from the Atlantic to the Pacific basins. The impact of low oil prices, high refinery throughput, and increased onshore stockpiling in the first quarter of 2015 are also expected to support positive tanker demand in the first half of 2015.

**Fleet and TCE Rates**

As at December 31, 2014, we owned 27 double-hulled conventional oil tankers, time-chartered in eight Aframax tankers and four LR2 product tankers from third parties and owned a 50% interest in one VLCC. The number of vessels we own, as well as our financial and operational results, includes the Dropdown Predecessor in all relevant periods presented. Please read Item 18 Financial Statements: Note 1 Summary of Significant Accounting Policies included in the notes to our consolidated financial statements included in this Annual Report.

As defined and discussed above, we calculate TCE rates as net revenue per revenue day before related-party pool management fees and pool commissions, and off-hire bunker expenses. The following table outlines the average TCE rates earned by vessels for 2014 and 2013:

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Net Revenues		Average TCENet Revenues	Average TCE		
	(1)(2)	Revenue	per	(2)(3)	per	
(in thousands)	Days	Revenue	(in	Revenue	Revenue	
		Day	thousands)	Days	Day	
Voyage-charter contracts - Suezmax	\$ 67,221	2,926	\$ 22,976	\$ 38,659	2,817	\$ 13,550
Voyage-charter contracts - Aframax	\$ 37,777	1,692	\$ 22,321	\$ 14,472	1,183	\$ 12,063
Voyage-charter contracts - LR2	\$ 30,294	1,698	\$ 17,842	\$ 14,633	1,094	\$ 13,164
Voyage-charter contracts - MR	\$ 9,828	697	\$ 14,108	\$ 7,474	555	\$ 13,414
Voyage-charter contracts - VLCC	\$ 1,323	96	\$ 13,805			
Time-charter contracts - Suezmax	\$ 13,727	676	\$ 20,292	\$ 13,560	680	\$ 19,875
Time-charter contracts - Aframax	\$ 51,761	2,928	\$ 17,676	\$ 57,226	3,314	\$ 17,140
Time-charter contracts - MR	\$ 13,170	365	\$ 36,081	\$ 16,599	517	\$ 32,008
<b>Total</b>	<b>\$ 225,101</b>	<b>11,078</b>	<b>\$ 20,319</b>	<b>\$ 162,623</b>	<b>10,160</b>	<b>\$ 15,861</b>

(1) Excludes a total of \$6.9 million in pool management fees and commissions payable for commercial management of our vessels and \$1.8 million in off-hire bunker and other expenses.

(2) Excludes interest income from investment in term loan of \$9.1 million and \$7.7 million for 2014 and 2013, respectively.

(3) Excludes a total of \$5.3 million in pool management fees and commissions payable for commercial management of our vessels and \$3.2 million in off-hire bunker and other expenses.

Net Revenues. Net revenues increased to \$225.6 million for 2014 from \$161.8 million for 2013 primarily due to:



an increase of \$26.6 million resulting from higher average realized rates earned by our Suezmax tankers in 2014 compared to 2013;

a net increase of \$24.4 million due to the addition of seven in-chartered Aframax tankers and four in-chartered LR2 product tankers in 2014, the addition of two VLCCs in March 2014 that were subsequently sold to TIL in May 2014 and the full year impact of an Aframax tanker in-chartered in 2013, partially offset by the redelivery of an in-chartered Aframax tanker to its owner in 2013;

an increase of \$12.1 million resulting from higher average realized rates earned by our Aframax tankers in 2014 compared to 2013;

an increase of \$5.1 million resulting from higher average realized rates earned by our LR2 product tankers in 2014 compared to 2013;

an increase of \$1.4 million due to an increase in interest income earned on our investments in term loans;

a net increase of \$0.6 million due to lower management fees, commissions, off-hire bunker expense and other expenses; and

an increase of \$0.4 million resulting from higher average realized rates earned by our MR product tankers in 2014 compared to 2013;

partially offset by

a net decrease of \$4.6 million resulting from various vessels changing employment between fixed-rate charters and voyage charters; and

a net decrease of \$2.4 million due to more off-hire days in 2014 compared to 2013.

Vessel Operating Expenses. Vessel operating expenses increased to \$93.0 million for 2014 from \$91.7 million for 2013 primarily due to:

an increase of \$2.2 million relating primarily to more repairs conducted in 2014 on certain of our vessels, including a heating coil repair on a Suezmax tanker at a cost of \$1.3 million during the first quarter of 2014, for which we received an indemnification payment from Teekay; and

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an increase of \$1.0 million for the year ended December 31, 2014 relating to the operating expenses incurred by the two VLCCs, which joined our fleet in March 2014 and which we subsequently sold to TIL in May 2014;  
partially offset by

a decrease of \$1.8 million relating to lower levels of planned maintenance, equipment overhauls and purchases of consumables in 2014 as compared to 2013.

Time-charter Hire Expense. Time-charter hire expense increased to \$22.2 million for 2014 from \$6.2 million for 2013 due to the addition of seven in-chartered Aframax tankers and four LR2 tankers to our fleet in the year ended December 31, 2014, partially offset by the redelivery of one previously in-chartered Aframax tanker to its owner in the third quarter of 2013.

Depreciation and Amortization. Depreciation and amortization increased to \$50.2 million for 2014 from \$47.8 million for 2013. The increase primarily relates to higher amortization of dry-docking expenditures in 2014 as compared to the prior year.

General and Administrative Expenses. General and administrative expenses decreased to \$12.0 million for 2014 compared to \$12.6 million for 2013, primarily due to:

a net decrease of \$0.9 million due to lower administrative and strategic fees partially offset by higher equity-based compensation expenses incurred in 2014;  
partially offset by

an increase of \$0.4 million as a result of higher corporate expenses incurred primarily as a result of increased legal expenses related to the STX arbitration and other projects.

Gain (loss) on Sale of Vessels. Gain on sale of vessels of \$10.0 million for the year ended December 31, 2014 related to the sale of two wholly-owned subsidiaries, each of which owned one VLCC, to TIL for aggregate proceeds of \$154.0 million plus related working capital on closing. The subsidiaries had a net book value of \$144.0 million at the time of the transaction.

Interest Expense. Interest expense decreased to \$8.7 million for 2014 from \$10.0 million for 2013, primarily due to the prepayment of \$152 million on one of our revolving credit facilities in May 2014 using the gross proceeds from the sale of two wholly-owned subsidiaries to TIL in May 2014, as well as lower average balances of fixed-rate debt due to scheduled repayments made on the fixed-rate facilities during the year ended December 31, 2014.

Realized and unrealized loss on derivative instruments. Realized and unrealized loss on derivative instruments increased to \$1.7 million for 2014 from \$1.5 million for 2013. Realized and unrealized loss on derivative instruments is comprised of realized and unrealized gains or losses on our interest rate swaps and unrealized gains or losses on a stock purchase warrant issued to us by TIL.

Realized and unrealized losses on interest rate swaps were \$2.9 million for the year ended December 31, 2014, compared to \$1.5 million for the year ended December 31, 2013. During 2014 and 2013, we had interest rate swap

agreements with aggregate average outstanding notional amounts of approximately \$300 million and \$322.9 million, respectively, and with weighted average fixed rates of approximately 3.59% and 3.42%, respectively. Short term variable benchmark interest rates during these periods were generally less than 1.0%. As a result, we incurred realized losses of \$10.0 million and \$9.9 million for the years ended December 31, 2014 and 2013, respectively, under the interest rate swap agreements.

The changes in the fair value of the interest rate swaps resulted in unrealized gains of \$7.1 million and \$8.4 million for the years ended December 31, 2014 and 2013, respectively, due to an increase in long-term benchmark interest rates in both years.

In addition to our interest rate swaps, we have a stock purchase warrant entitling us to purchase up to 750,000 shares of common stock of TIL. The stock purchase warrant had a fair value of \$4.7 million as of December 31, 2014 and we recognized an unrealized gain of \$1.2 million for the year ended December 31, 2014.

Please see Item 5 - Operating and Financial Review and Prospects Valuation of Derivative Instruments, which explains how our derivative instruments are valued, including the significant factors and uncertainties in determining the estimated fair value and why changes in these factors result in material changes in realized and unrealized loss or gain on derivative instruments from period to period.

Equity income.

(in thousands of U.S. dollars)	Year Ended December 31,	
	2014	2013
High-Q Joint Venture	2,702	854
Tanker Investments Ltd.	(184)	
Dilution gain in respect of the Initial Public Offering of Tanker Investments Ltd.	2,054	
Teekay Tanker Operations Ltd.	656	
<b>Total equity income</b>	<b>5,228</b>	<b>854</b>

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We recorded equity income of \$5.2 million and \$0.9 million for the year ended December 31, 2014 and 2013, respectively. The increase of \$4.3 million is primarily due to higher equity income earned from the full year of operations of the VLCC owned in our investment in the High-Q joint venture as well as equity income from our investment in TTOL, partially offset by the equity loss from our investment in TIL for the year ended December 31, 2014. In the year ended December 31, 2014, we also recognized a \$2.1 million dilution gain as a result of our reduced ownership in TIL from TIL's share issuance completed as part of its initial public offering in March 2014.

The High-Q joint venture has an interest swap agreement which exchanges a receipt of floating interest for a payment of fixed interest to reduce the joint venture's exposure to interest rate variability on its outstanding floating rate debt. Our proportionate share of realized and unrealized gains or losses relating to this instrument has been included in the equity income from the High-Q joint venture. For the years ended December 31, 2014 and 2013, our proportionate share of realized losses was \$0.4 million and \$0.2 million, respectively, and unrealized losses were \$nil and \$0.1 million, respectively.

Other income (expenses). Other income was \$3.8 million in 2014, compared to other expenses of \$1.0 million in 2013. The increase primarily relates to income of \$3.4 million recognized upon receipt of the TIL stock purchase warrant in the first quarter of 2014, which we received for our involvement in the formation of TIL, as well as favorable foreign exchange fluctuations and a decrease in our estimate of freight tax expenses for the year ended December 31, 2014 as compared to the prior year.

Net Income (Loss). As a result of the foregoing factors, we recorded net income of \$57.1 million for 2014, compared to a loss of \$8.1 million for 2013.

**Year Ended December 31, 2013 versus Year Ended December 31, 2012**

The following table presents our operating results for 2013 and 2012 and compares net revenues, a non-GAAP financial measure, for those periods to revenues, the most directly comparable GAAP financial measure.

(in thousands of U.S. dollars)	Year Ended December 31,	
	2013	2012
Revenues	162,410	185,930
Interest income from investment in term loans	7,677	11,499
Less: voyage expenses	(8,337)	(4,618)
Net revenues	161,750	192,811
Vessel operating expenses	(91,667)	(96,160)
Time-charter hire expense	(6,174)	(3,950)
Depreciation and amortization	(47,833)	(72,365)
General and administrative	(12,594)	(7,985)
Vessel impairment and net loss on sale of vessels	(71)	(352,546)
Income (loss) from vessel operations	3,411	(340,195)
Interest expense	(10,023)	(20,009)
Interest income	158	50
Realized and unrealized loss on derivative instruments	(1,524)	(7,963)
Equity income (loss)	854	(1)

Other expenses	(1,014)	(2,063)
Net loss	(8,138)	(370,181)

### Fleet and TCE Rates

As at December 31, 2013, we owned 27 double-hulled conventional oil tankers, time-chartered in one Aframax vessel from a third party and owned a 50% interest in one VLCC. The number of vessels we own, as well as our financial and operational results, includes the Dropdown Predecessor in all relevant periods presented. Please read Item 18 Financial Statements: Note 1 Summary of Significant Accounting Policies included in the notes to our consolidated financial statements attached in this Report.

As defined and discussed above, we calculate TCE rates as net revenue per revenue day before related-party pool management fees and pool commissions, and off-hire bunker expenses. The following table outlines the average TCE rates earned by vessels for 2013 and 2012:

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Net Revenues		Average TCE	Net Revenues		Average TCE
	(1)(2)	Revenue	per	(2)(3)	Revenue	per
	(in thousands)	Days	Revenue	(in thousands)	Days	Revenue
			Day			Day
Voyage-charter contracts - Suezmax	\$ 38,659	2,817	\$ 13,550	\$ 32,983	1,865	\$ 17,688
Voyage-charter contracts - Aframax	\$ 14,472	1,183	\$ 12,063	\$ 19,279	1,583	\$ 12,179
Voyage-charter contracts - LR2	\$ 14,633	1,094	\$ 13,164	\$ 13,568	1,098	\$ 12,357
Voyage-charter contracts - MR	\$ 7,474	555	\$ 13,414			
Time-charter contracts - Suezmax	\$ 13,560	680	\$ 19,875	\$ 37,529	1,682	\$ 22,311
Time-charter contracts - Aframax	\$ 57,226	3,314	\$ 17,140	\$ 56,039	3,043	\$ 18,418
Time-charter contracts - MR	\$ 16,599	517	\$ 32,008	\$ 28,063	1,092	\$ 25,711
Total	\$ 162,623	10,160	\$ 15,861	\$ 187,461	10,363	\$ 18,091

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- (1) Excludes a total of \$5.3 million in pool management fees and commissions payable for commercial management of our vessels and \$3.2 million in off-hire bunker and other expenses.
- (2) Excludes interest income from investment in term loan of \$7.7 million and \$11.5 million for 2013 and 2012, respectively.
- (3) Excludes a total of \$4.7 million in pool management fees and commissions payable for commercial management of our vessels and \$1.5 million in off-hire bunker and other expenses.

Net Revenues. Net revenues decreased to \$161.8 million for 2013 from \$192.8 million for 2012, primarily due to:

a net decrease of \$15.2 million resulting from various vessels changing employment between fixed-rate charters and voyage charters;

a decrease of \$11.4 million resulting from lower average realized rates earned by our Suezmax tankers in 2013 compared to 2012;

a decrease of \$3.8 million due to the sale of the *Nassau Spirit* in January 2013;

a decrease of \$3.8 million due to a decrease in interest income earned on our investments in term loans;

a decrease of \$3.4 million resulting from lower average realized rates earned by our Aframax tankers in 2013 compared to 2012;

a decrease of \$2.3 million due to an increase in pool management fees, pool commissions and off-hire bunker expenses in 2013 compared to 2012; and

a net decrease of \$1.1 million due to more off-hire days in 2013 compared to 2012;  
partially offset by

an increase of \$7.0 million resulting from higher average realized rates earned by our MR product tankers in 2013 compared to 2012;

a net increase of \$2.1 million due to the addition of an in-chartered Aframax tanker, partially offset by the redeliveries of three in-chartered Aframax tankers to their owners in March 2012, June 2012 and July 2013; and

an increase of \$1.1 million resulting from higher average realized rates earned by our LR2 product tankers in 2013 compared to 2012.

Vessel Operating Expenses. Vessel operating expenses decreased to \$91.7 million for 2013 compared to \$96.2 million for 2012 primarily due to the reduction of \$3.9 million due to the sale of the *Nassau Spirit* in January 2013, a decrease of \$0.6 million due to cost reduction initiatives for crew related costs as well as a reduction of \$1.3 million in technical management costs, partially offset by an increase of \$0.7 million due to the timing and extent of planned vessel maintenance and repairs as well as a \$0.6 million increase relating to insurance costs in 2013 compared to 2012.

Time-charter Hire Expense. Time-charter hire expense increased to \$6.2 million for 2013 compared to \$4.0 million for 2012 due to the addition of one Aframax tanker to our fleet in the first quarter of 2013.

Depreciation and Amortization. Depreciation and amortization decreased to \$47.8 million for 2013 compared to \$72.4 million for 2012. The decrease in 2013 relates primarily to the vessel write down of seven Suezmax tankers, four Aframax tankers and one product tanker recorded in the fourth quarter of 2012 and the sale of the *Nassau Spirit*. Please see Item 18 Financial Statements: Note 18 Vessel Sales, Vessel Acquisitions and Vessel Impairments included in the notes to our consolidated financial statements attached to this Annual Report.

General and Administrative Expenses. General and administrative expenses increased to \$12.6 million for 2013 compared to \$8.0 million for 2012, primarily due to:

an increase of \$5.3 million in administrative and strategic fees due to the increase in fleet size and increases in management cost allocations for the year ended December 31, 2013;  
partially offset by

a decrease of \$0.7 million in corporate expenses such as audit, consulting and legal fees in 2013 as compared to 2012, due in part to the costs related to the acquisition of vessels in 2012.

Vessel Impairments and Net Loss on Sale of Vessels. Vessel impairments and net loss on sale of vessels totaled \$0.1 million for the year ended December 31, 2013 and represented a loss realized on the sale of an Aframax tanker, the *Nassau Spirit*. The vessel was classified as held for sale on the consolidated balance sheet as at December 31, 2012 and was sold in January 2013 for proceeds of \$9.1 million.

Vessel impairments and net loss on sale of vessels totaled \$352.5 million for the year ended December 31, 2012. Indicators of impairment were present in the fourth quarter of 2012 which triggered an impairment test to be conducted on certain of our conventional oil tankers. At the time of the impairment test these indicators of impairment included a negative change in the outlook for the crude tanker market, a delay in the expected timing of a recovery of the crude tanker market, and the expected discrimination impact from more fuel efficient vessels being constructed. As a result of these developments, we recognized impairments on seven Suezmax tankers, four Aframax tankers and one MR product tanker, which in aggregate amounted to \$352.5 million. In December 2012, we entered into an agreement to sell one of the four impaired Aframax tankers, the *Nassau Spirit*. The vessel sale was completed in January 2013 and the vessel was classified as held for sale on the consolidated balance sheet as at December 31, 2012.

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**Interest Expense.** Interest expense decreased to \$10.0 million for 2013 compared to \$20.0 million for 2012, primarily due to:

a decrease of \$7.8 million in interest expense primarily due to interest allocation related to the Dropdown Predecessor during 2012. Long-term debt of the Dropdown Predecessor, bearing interest at 8.5%, was replaced with revolving credit facilities, which had an average outstanding interest rate of approximately 1.3%, and debt levels related to the 2012 Acquired Business were reduced after we acquired it in June 2012; and

a decrease of \$2.2 million due to lower variable interest rates in 2013 compared to 2012.

**Realized and unrealized loss on derivative instruments.** Realized and unrealized losses on interest rate swaps were \$1.5 million for the year ended December 31, 2013, compared to \$8.0 million for the year ended December 31, 2012. During 2013 and 2012, we had interest rate swap agreements with aggregate average outstanding notional amounts of approximately \$322.9 million and \$415.0 million, respectively, and with weighted average fixed rates of approximately 3.42% and 2.87%, respectively. Short term variable benchmark interest rates during these periods were generally less than 1.0%, and, as a result, we incurred realized losses of \$9.9 million and \$9.6 million, respectively, during 2013 and 2012 under the interest rate swap agreements.

Long-term benchmark interest rates increased in 2013 and 2012, causing us to recognize an unrealized gain of \$8.4 million for the year ended December 31, 2013 and an unrealized gain of \$1.6 million for the prior year. Please see Item 5 - Operating and Financial Review and Prospects - Valuation of Derivative Instruments, which explains how our derivative instruments are valued, including the significant factors and uncertainties in determining the estimated fair value and why changes in these factors result in material changes in realized and unrealized gain on derivative instruments from period to period.

**Equity income (loss).** We recorded equity income of \$0.9 million in the year ended December 31, 2013, compared to \$(1) thousand in the prior year. This income represents our 50% share of the income earned by the joint venture, jointly controlled by us and Wah Kwong Maritime Transport Holdings Ltd., from the operation of the VLCC from its delivery date of June 14, 2013.

**Other expenses.** Other expenses were \$1.0 million in 2013, compared to \$2.1 million in 2012. The decrease in other expenses is primarily related to a decrease in our estimate of freight tax expenses due to a decreased number of voyages to certain freight tax jurisdictions and a change in the foreign exchange for the year ended December 31, 2103 as compared to the prior year.

**Net Loss.** As a result of the foregoing factors, we recorded a net loss of \$8.1 million for 2013, compared to a loss of \$370.2 million for 2012.

## **Liquidity and Capital Resources**

### ***Liquidity and Cash Needs***

Our primary sources of liquidity are cash and cash equivalents, cash flows provided by our operations, our undrawn credit facilities, proceeds from sales of vessels, and capital raised through financing transactions. As at December 31, 2014, our total cash and cash equivalents were \$162.8 million, compared to \$25.6 million at December 31, 2013. Our



cash balance at December 31, 2014 had increased as a result of our December 2014 public offering and concurrent private placement of our Class A common stock, which generated net proceeds of \$111.2 million to be used to fund, in part, our acquisition of five vessels for a total purchase price of \$230.3 million in early 2015. Subsequent to December 31, 2014, we also secured a loan facility in the amount of \$126.6 million with a maturity date of January 30, 2016, raised an additional \$13.7 million of net proceeds from the issuance of shares upon the exercise by the underwriters of their option to purchase shares in connection with our December 2014 public offering, and prepaid \$95.0 million of one of our revolving credit facilities.

Our total liquidity, including cash, cash equivalents and undrawn credit facilities, was \$289.0 million as at December 31, 2014, compared to \$173.8 million as at December 31, 2013. Including the proceeds from January 2015 share issuance referred to above, our liquidity increased to \$302.7 million. We believe that our working capital is sufficient for our present requirements.

Our short-term liquidity requirements include the payment of operating expenses, dry-docking expenditures, funding the purchase of five vessels, debt servicing costs, dividends on our shares of common stock, scheduled repayments of long-term debt, as well as funding our other working capital requirements. Our short-term charters and spot market tanker operations contribute to the volatility of our net operating cash flow, and thus our ability to generate sufficient cash flows to meet our short-term liquidity needs. Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. In addition, tanker spot markets historically have exhibited seasonal variations in charter rates. Tanker spot markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere and unpredictable weather patterns that tend to disrupt vessel scheduling. Through December 31, 2012, we distributed the majority of our cash flow to shareholders through a full payout dividend policy, subject to certain reserves determined by our Board of Directors. Our Board of Directors modified our dividend policy, and commencing in the first quarter of 2013, we pay a fixed quarterly dividend of \$0.03 per share on our common shares, which amount is reviewed from time to time by our Board of Directors.

Our long-term capital needs are primarily for capital expenditures and debt repayment. Generally, we expect that our long-term sources of funds will be cash balances, long-term bank borrowings and other debt or equity financings. We expect that we will rely upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and expansion capital expenditures, including opportunities we may pursue to purchase additional vessels from Teekay or third parties.

Our primary revolving credit facility is repayable in full in November 2017. As of December 31, 2014, the facility had an outstanding balance of \$452.0 million, of which we prepaid \$95.0 million in January 2015. Immediately preceding its maturity in November 2017, the maximum amount available under the facility is \$349.4 million. Our ability to refinance any amounts outstanding under this facility on or prior to maturity in November 2017 will likely depend on the strength of the tanker market. If the tanker market weakens materially, we may need to raise additional liquidity through issuance of common shares, preferred shares or bonds, or a combination thereof. Alternatively, we may seek to renegotiate our primary revolving credit facility to extend repayment of the facility. This may result in an increase in the rate of interest we pay on amounts borrowed under the facility. In addition, our liquidity requirements in 2017 may impact the types of investments we make prior to this date.

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Our revolving credit facilities and term loans are described in Item 18 Financial Statements: Note 8 - Long-Term Debt to our consolidated financial statements included in this Annual Report. Our revolving credit facilities and term loans contain covenants and other restrictions we believe are typical of debt financing collateralized by vessels, including those that restrict the relevant subsidiaries from incurring or guaranteeing additional indebtedness, making certain negative pledges or granting certain liens, and selling, transferring, assigning or conveying assets. In the future, some of the covenants and restrictions in our financing agreements could restrict the use of cash generated by ship-owning subsidiaries in a manner that could adversely affect our ability to pay dividends on our common stock. However, we do not currently expect that these covenants will have such an effect. Our revolving credit facilities and term loans require us to maintain financial covenants. Should we not meet these financial covenants, the lender may declare our obligations under the agreements immediately due and payable and terminate any further loan commitments, which would significantly affect our short-term liquidity requirements. As at December 31, 2014, we and Teekay were in compliance with all covenants relating to our revolving credit facilities and term loans.

We are exposed to market risk from changes in interest rates, foreign currency fluctuations and spot market rates. We use interest rate swaps to manage interest rate risk. We do not use this financial instrument for trading or speculative purposes.

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

***Cash Flows***

The following table summarizes our sources and uses of cash for the periods presented:

(in thousands of U.S. dollars)	Year Ended December 31,		
	2014	2013	2012
Net cash flow from operating activities	13,603	6,202	27,542
Net cash flow provided by (used for) financing activities	13,721	(1,097)	(13,905)
Net cash flow provided by (used for) investing activities	109,827	(5,800)	(5,862)

***Operating Cash Flows***

Changes in net cash flow from operating activities primarily reflect fluctuations in spot tanker rates, change in interest rates, fluctuations in working capital balances, the timing and the amount of dry-docking expenditures, repairs and maintenance activities, and vessel additions and dispositions. Our exposure to the spot tanker market has contributed significantly to historical fluctuations in operating cash flows as a result of highly cyclical spot tanker rates.

Net cash flow from operating activities increased to \$13.6 million in 2014, compared to \$6.2 million in 2013, primarily as a result of the following:

a net increase of \$50.3 million in operating earnings before depreciation, amortization, unrealized gains/losses on derivative instruments, equity income, gain (loss) on sale of vessels and changes in other non-cash items related to operating activities, primarily as a result of higher average realized TCE rates in the spot market and our increased exposure to the spot market due to the addition of seven time-chartered in Aframax vessels and four time-chartered in LR2 vessels in the year ended December 31, 2014, which traded in the Teekay-managed pools as well as placing certain of our vessels in Teekay pools upon expiration of their time-charter out contracts; and

a net increase of \$2.2 million due to fewer expenditures on dry-docking activities in 2014 as a result of a lower average cost per dry dock of an Aframax or an MR vessel as compared to a Suezmax vessel. In 2014, we dry docked seven Aframax tankers, one MR and one Suezmax tanker, whereas in 2013, six Suezmax and two Aframax tankers underwent scheduled drydockings;

partially offset by

a net decrease of \$45.1 million due to changes in non-cash working capital relating to our vessel operations primarily due to an increase in pool receivables from affiliates as a result of higher average realized spot rates in 2014 and an increase in fleet size. Due from affiliates also increased mainly as a result of additional cash and bunker contributions we paid when our newly time-chartered in vessels joined Teekay pools and when our vessels joined Teekay pools upon the expiration of their time-charter out contracts.

Net cash flow from operating activities decreased to \$6.2 million in 2013, compared to \$27.5 million in 2012, primarily as a result of the following:

a net decrease of \$32.3 million in operating earnings before interest, depreciation, amortization, unrealized gains/losses on derivative instruments, equity income, impairment and changes in other non-cash items related to operating activities, primarily as a result of lower average realized TCE rates and an increase in voyage and time-charter hire expenses in 2013 as compared to 2012; and

a net decrease of \$12.2 million due to dry-docking expenditures for eight vessels in 2013 compared to four in 2012;

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partially offset by

a net increase of \$13.2 million due to changes in non-cash working capital relating to our vessel operations; and

a net increase of \$10.0 million due to lower interest expenses on our debt for the year ended December 31, 2013 compared to the prior year as a result of replacing long-term debt of the Dropdown Predecessor, bearing interest rate at 8.5% with revolving credit facilities, which had an average outstanding interest rate of approximately 1.3% in 2013.

***Financing Cash Flows***

Net cash inflow from financing activities increased to \$13.7 million in 2014, compared to net cash outflow of \$1.1 million in 2013, primarily as a result of the following:

a net increase in financing cash inflows of \$44.5 million as a result of additional borrowings under our debt facilities and a decrease in repayments of debt facilities. For the year ended December 31, 2014 compared to the 2013, we borrowed \$39.6 million more under our revolving credit facilities and term loans and repaid \$4.9 million less in scheduled debt repayments;

an increase of \$111.2 million in cash received from a public offering and concurrent private placement of our shares in December 2014. We issued 24.2 million shares of Class A common stock at \$4.80 per share for the net proceeds of \$111.2 million in the December 2014 public offering and concurrent private placement. We undertook no public offerings or private placements in 2013; and

an increase of \$1.3 million due to an indemnification payment received from Teekay for the repairs performed on the heating coils of one Suezmax tanker we purchased from Teekay in 2010;

partially offset by

an increase of \$142.0 million in cash outflows due to increased long-term debt prepayments (primarily as a result of cash generated from our sale of two VLCCs as described in the investing section).

Net cash outflow from financing activities was \$1.1 million in 2013, compared to \$13.9 million in 2012, as a result of the following:

a net increase in financing cash inflows of \$50.2 million as a result of net borrowing, repayments, and prepayments on our credit facilities. For the year ended December 31, 2013 compared to the 2012, we borrowed \$26.9 million more from our revolving credit facilities; repaid \$11.7 million more in scheduled debt repayments; and decreased our prepayments of long term debt by \$35.0 million;

an increase in financing cash inflows of \$22.2 million as a result of lower dividend payments for the year ended December 31, 2013 compared to the prior year; and

a net decrease of \$6.2 million in cash outflow resulting from the net financing activities of the Dropdown Predecessor;

partially offset by

a decrease of \$65.8 million in cash received from public offerings 2013 compared to the year ended December 31, 2012. We undertook no public offerings in 2013, compared with a public offering during 2012 in which we issued 17.3 million shares at \$4.00 per share for net proceeds of \$65.8 million.

***Investing Cash Flows***

Net cash provided by investing activities increased to \$109.8 million in 2014, compared to net cash used for investing activities of \$5.8 million in the prior year, primarily as a result of the following:

an increase of \$154.0 million in cash inflows due to gross proceeds from the sale of two wholly-owned subsidiaries, each of which owned one VLCC, to TIL in May 2014; and

an increase of \$10.3 million in cash inflows due to the term loan advance recoveries made as a result of our taking ownership of the two 2010-built VLCC tankers, which were collateral for all amounts owing under the term loans;

partially offset by

cash outflows of \$35.6 million for investments in equity accounted investments during 2014. We invested \$35.0 million in common shares of TIL, paid \$6.5 million in connection with the purchase of our investment in TTOL and received a net repayment of \$2.0 million from the High-Q joint venture in the year ended December 31, 2014, as compared to \$3.9 million of advances to the High-Q joint venture in the year ended December 31, 2013;

a decrease of \$9.1 million due to the sale of one Aframax tanker in January 2013 for proceeds of \$9.1 million;

a decrease of \$3.7 million due to a deposit placed in escrow in 2014 for the purchase of one Aframax tanker, which was delivered in the first quarter of 2015; and

an increase of \$0.2 million in cash outflows during 2014 for upgrades and other capital expenditures on our fleet.



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Net cash used for investing activities for the year ended December 31, 2013 decreased to \$5.8 million, compared to \$5.9 million in 2012, as a result of the following:

a decrease in cash used for investing activities of \$9.1 million in 2013 as a result of proceeds received from the sale of one Aframax tanker, *the Nassau Spirit*, which was sold in January 2013; and

a decrease in cash used for investing activities of \$0.6 million due to a reduction in expenditures for vessel and equipment for the year ended December 31, 2013 compared to the prior year;  
partially offset by

an net increase in cash used for investing activities of \$9.1 million due to additional funding, which was required to negotiate the release from detention in Egypt of one of the VLCCs securing our investment in term loans as well as to fund operating expenditures related to the VLCCs then trading under our management in the spot tanker market; and

an increase of \$0.5 million primarily as a result of our funding to our 50/50 joint venture to meet shipyard obligations for the construction of a VLCC newbuilding, which was completed in June of 2013.

Please read Item 18 Financial Statements: Note 5 Investment in Term Loans and Note 6 - Investments in and advances to equity accounted investments for specific details on our investment in term loans and 50/50 joint venture activities included in the notes to our consolidated financial statements attached in this Annual Report.

**Commitments and Contingencies**

The following table summarizes our long-term contractual obligations as at December 31, 2014:

(in millions of U.S. dollars)	Total	2015	2016 and 2017	2018 and 2019	Beyond 2019
<b>U.S. Dollar-Denominated Obligations</b>					
Long-term debt <sup>(1)</sup>	656.1	42.0	497.9	76.4	39.8
Chartered-in vessels (operating leases) <sup>(2)</sup>	62.3	49.0	13.3		
Total	718.4	91.0	511.2	76.4	39.8

- (1) Excludes all expected interest payments of \$6.5 million (2015), \$9.0 million (2016 and 2017), \$1.6 million (2018 and 2019), and \$0.6 million (beyond 2019). Expected interest payments are based on the existing interest rates for fixed-rate loans that range from 4.06% to 4.90% and existing interest rates for variable-rate loans at LIBOR plus margins that range from 0.3% to 1.0% at December 31, 2014. The expected interest payments do not reflect the effect of related interest rate swaps that we have used to hedge certain of our floating-rate debt.

- (2) Excludes payments required if we execute all options to extend the terms of in-chartered leases. If we exercise all options to extend the terms of in-chartered leases, we would expect to be obligated to additional total payments of \$65.3 million (2015), \$32.3 million (2016), \$7.4 million (2017) and \$5.6 million (2018).

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

### **Critical Accounting Estimates**

We prepare our financial statements in accordance with GAAP, which requires us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For a further description of our material accounting policies, please read Item 18 Financial Statements: Note 1 Summary of Significant Accounting Policies to our consolidated financial statements included in this Annual Report.

### ***Revenue Recognition***

*Description.* We recognize voyage revenue using the proportionate performance method. Under this method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. This means that voyage revenues are recognized ratably either from the beginning of when product is loaded for one voyage to when it is loaded for the next voyage, or from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage.

*Judgments and Uncertainties.* In applying the proportionate performance method, we believe that in most cases the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, we generally have information about the next load port and expected discharge port, but at the time of loading we are typically less certain what the next load port will be. We use this method of revenue recognition for all spot voyages. However we do not begin recognizing revenue for any of our vessels until a charter has been agreed to by the customer and us, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.



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*Effect if Actual Results Differ from Assumptions.* If actual results are not consistent with our estimates in applying the proportionate performance method, our revenues could be overstated or understated for any given period by the amount of such difference.

***Vessel Lives and Impairment***

*Description.* Acquisitions of vessels from Teekay were deemed to be business acquisitions between entities under common control. Accordingly, the carrying value of each such vessel represents Teekay's carrying value at the date we acquired the vessel, less subsequent depreciation and impairment charges. We depreciate the original cost, less an estimated residual value, of these vessels on a straight-line basis over each vessel's estimated useful life. The carrying values of our vessels may not represent their market value at any point in time because the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature.

We review vessels and equipment for impairment whenever events or circumstances indicate the carrying value of an asset, including the carrying value of the charter contract, if any, under which the vessel is employed, may not be recoverable. This occurs when the asset's carrying value is greater than the future undiscounted cash flows the asset is expected to generate over its remaining useful life. If the estimated future undiscounted cash flows of an asset exceed the asset's carrying value, no impairment is recognized even though the fair value of the asset may be lower than its carrying value. If the estimated future undiscounted cash flows of an asset are less than the asset's carrying value and the fair value of the asset is less than its carrying value, the asset is written down to its fair value. Fair value is calculated as the net present value of estimated future cash flows, which, in certain circumstances, will approximate the estimated market value of the vessel. For a vessel under charter, the discounted cash flows from that vessel may exceed its market value, as market values may assume the vessel is not employed on an existing charter.

The following table presents the aggregate market values and carrying values of our vessels that we have determined have a market value that is less than their carrying value as of January 1, 2015. While the market values of these vessels are below their carrying values, no impairment has been recognized on any of these vessels in 2014 as the estimated future undiscounted cash flows relating to such vessels are greater than their carrying values.

We consider the vessels reflected in the following table to be at a higher risk of future impairment. This table is disaggregated for vessels which have estimated future undiscounted cash flows that are marginally or significantly greater than their respective carrying values. Vessels with estimated future cash flows significantly greater than their respective carrying values would not necessarily represent vessels that would likely be impaired in the next twelve months. The recognition of an impairment in the future for those vessels may primarily depend upon our deciding to dispose of the vessel instead of continuing to operate it. In deciding whether to dispose of a vessel, we determine whether it is economically preferable to sell the vessel or continue to operate it. This assessment includes an estimation of the net proceeds expected to be received if the vessel is sold in its existing condition compared to the present value of the vessel's estimated future revenue, net of operating costs. Such estimates are based on the charter market outlook and estimated operating costs, given a vessel's type, condition and age. In addition, we typically do not dispose of a vessel that is servicing an existing customer contract. The recognition of an impairment in the future may be more likely for vessels that have estimated future undiscounted cash only marginally greater than their respective carrying values.

Aframax, Suezmax and Product Tankers

# Vessels

Market  
ValuesCarrying  
Values

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(in thousands of USD, except number of vessels)	(1)		
Conventional Tankers <sup>(2)</sup>	3	\$ 40,800	\$ 55,331
Conventional Tankers <sup>(3)</sup>	17	\$ 487,400	\$ 584,617
<b>Total</b>	<b>20</b>	<b>\$ 528,200</b>	<b>\$ 639,948</b>

(1) Market values are determined using reference to second-hand market comparables. Since vessel values can be volatile, our estimates of market value may not be indicative of either the current or future prices we could obtain if we sold any of the vessels.

(2) Undiscounted cash flows are marginally greater than the carrying values.

(3) Undiscounted cash flows are significantly greater than the carrying values.

*Judgments and Uncertainties.* Depreciation is calculated using an estimated useful life of 25 years for conventional crude oil and product tankers, commencing at the date the vessel was originally delivered from the shipyard. However, the actual life of a vessel may be different than the estimated useful life, with a shorter actual useful life resulting in an increase in quarterly depreciation and potentially resulting in an impairment loss. The estimated useful life of our vessels takes into account design life, commercial considerations and regulatory restrictions. Our estimates of future cash flows involve assumptions about future charter rates, vessel utilization, operating expenses, dry-docking expenditures, vessel residual values and the remaining estimated life of our vessels. Our estimated charter rates are based on rates under existing vessel contracts and market rates at which we expect we can re-charter our vessels. Our estimates of vessel utilization, including estimated off-hire time, are based on historical experience and our projections of the number of future conventional tanker voyages. Our estimates of operating expenses and dry-docking expenditures are based on historical operating and dry-docking costs and our expectations of future inflation and operating requirements. Vessel residual values are a product of a vessel's lightweight tonnage and an estimated scrap rate. The remaining estimated lives of our vessels used in our estimates of future cash flows are consistent with those used in the calculations of depreciation.

In our experience, certain assumptions relating to our estimates of future cash flows are more predictable by their nature, including estimated revenue under existing contract terms, on-going operating costs and remaining vessel life. Certain assumptions relating to our estimates of future cash flows require more discretion and are inherently less predictable, such as future charter rates beyond the firm period of existing contracts and vessel residual values, due to factors such as the volatility in vessel charter rates and vessel values. We believe that the assumptions used to estimate future cash flows of our vessels are reasonable at the time they are made. We can make no assurances, however, as to whether our estimates of future cash flows, particularly future vessel charter rates or vessel values, will be accurate.

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*Effect if Actual Results Differ from Assumptions.* If we conclude that a vessel or equipment is impaired, we recognize a loss in an amount equal to the excess of the carrying value of the asset over its fair value at the date of impairment. The written-down amount becomes the new lower cost basis and will result in a lower annual depreciation expense than for periods before the vessel impairment.

### ***Dry docking***

*Description.* We capitalize a substantial portion of the costs we incur during dry docking and amortize those costs on a straight-line basis from the completion of a dry docking to the estimated date of completion of the next dry docking. We immediately expense costs for routine repairs and maintenance performed during dry docking that do not improve or extend the useful lives of the assets.

*Judgments and Uncertainties.* Amortization of capitalized dry-docking expenditure requires us to estimate the period of the next dry docking. While we typically dry dock each vessel every 2.5 to 5 years, we may dry dock the vessels at an earlier date. The actual life of a vessel may be different, with a shorter life resulting in an increase in the quarterly depreciation and potentially resulting in an impairment loss. The estimates and assumptions regarding expected cash flows require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions. We are not aware of any indicators of impairments nor any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations.

*Effect if Actual Results Differ from Assumptions.* If we change our estimate of the next dry dock date we will adjust our annual amortization of dry-docking expenditures.

### ***Valuation of Derivative Instruments***

*Description.* Our risk management policies permit the use of derivative financial instruments to manage interest rate risk. We also have a stock purchase warrant from our involvement in the formation of TIL. Changes in fair value of derivative financial instruments that are not designated as cash flow hedges for accounting purposes are recognized in earnings in the consolidated statement of loss.

*Judgments and Uncertainties.* The fair value of our derivative instruments and the change in fair value of our derivative instruments from period to period result from our use of interest rate swap agreements and a stock purchase warrant.

The fair value of our interest rate swap agreements is the estimated amount that we would receive or pay to terminate the agreements in an arm's length transaction under normal business conditions at the reporting date, taking into account current interest rates and the current credit worthiness of ourselves and the swap counterparties. The estimated amount for interest rate swap agreements is the present value of estimated future cash flows, being equal to the difference between the benchmark interest rate and the fixed rate in the interest rate swap agreement, multiplied by the notional principal amount of the interest rate swap agreement at each interest reset date.

The fair value of our interest rate swap agreements at the end of each period is most significantly impacted by the interest rate implied by the benchmark interest rate yield curve, including its relative steepness. Interest rates have experienced significant volatility in recent years in both the short and long term. While the fair value of our interest rate swap agreements is typically more sensitive to changes in short-term rates, significant changes in the long-term benchmark interest rate also materially impact our interest rate swap agreements.

The fair value of our interest rate swap agreements is also impacted by changes in our specific credit risk included in the discount factor. We discount our interest rate swap agreements with reference to the credit default swap spreads of global industrial companies with a similar credit rating and by considering any underlying collateral. The process of determining credit worthiness requires significant judgment in determining which source of credit risk information most closely matches our risk profile.

The benchmark interest rate yield curve and our specific credit risk are expected to vary over the life of the interest rate swap agreements. The larger the notional amount of the interest rate swap agreements outstanding and the longer the remaining duration of the interest rate swap agreements, the larger the impact of any variability in these factors will be on the fair value of our interest rate swaps. We economically hedge the interest rate exposure on a significant amount of our long-term debt and for long durations. As such, we have historically experienced, and we expect to continue to experience, material variations in the period-to-period fair value of our derivative instruments.

The estimated value of the stock purchase warrant was determined using a Monte-Carlo simulation and is based, in part, on the historical price of common shares of TIL, the risk-free interest rate, vesting conditions and the historical volatility of comparable companies. The fair value of our stock purchase warrant at the end of each period is most significantly impacted by the stock price of TIL and the expected volatility of the TIL stock price. TIL seeks to opportunistically acquire, operate and sell modern second hand tankers to benefit from an expected recovery in the current cyclical low of the tanker market. Pending such transactions, TIL is employing its oil tankers on the spot market. Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply of and demand for tanker capacity and changes in the supply of and demand for oil and oil products. The cyclical nature of the tanker industry may cause significant increases or decreases in the value of TIL's vessels, TIL's stock price and the value of the stock purchase warrant we hold.

*Effect if Actual Results Differ from Assumptions.* Although we measure the fair value of our derivative instruments utilizing the inputs and assumptions described above, if we were to terminate the interest rate swap agreements or sell the stock purchase warrant at the reporting date, the amount we would pay or receive to terminate the interest rate swap agreements and the amount we would receive upon sale of the stock purchase warrant may differ from our estimate of fair value. If the estimated fair value differs from the actual termination amount, an adjustment to the carrying amount of the applicable derivative asset or liability would be recognized in earnings for the current period. Such adjustments could be material. See Item 18 Financial Statements: Note 9 Derivative Instruments for the effects on the change in fair value of our derivative instruments on our consolidated statements of loss.

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Our Board of Directors and executive officers oversee and supervise our operations. Subject to this oversight and supervision, our operations are managed generally by our Manager.

Our President and Chief Executive Officer, Kevin Mackay and our Chief Financial Officer, Vincent Lok allocate their time between managing our business and affairs directly as such officers and indirectly as officers of our Manager, and the business and affairs of Teekay Corporation, for which they also serve as executive team member and Executive Vice President and Chief Financial Officer, respectively. The amount of time Messrs. Mackay and Lok allocate among our business and the businesses of Teekay Corporation, our Manager and other subsidiaries of Teekay Corporation varies from time to time depending on the various circumstances and needs of the businesses, such as the relative levels of strategic activities of the businesses.

Our officers and individuals providing services to us or our subsidiaries may face a conflict regarding the allocation of their time between our business and the other business interests of Teekay Corporation or its affiliates. We intend to seek to cause our officers to devote as much time to the management of our business and affairs as is necessary for the proper conduct thereof.

Please also read Item 7 Major Shareholders and Related Party Transactions: Related Party Transactions.

**Directors and Executive Officers of Teekay Tankers Ltd.**

The following table provides information about the directors and executive officers of Teekay Tankers Ltd. Directors are elected for one-year terms. The business address of each of our directors and officers listed below is c/o 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08 Bermuda. Ages of the directors and executive officers are as of December 31, 2014.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Arthur Bensler	57	Chairman of the Board of Directors
Kevin Mackay	46	President and Chief Executive Officer <sup>(1)</sup>
Vincent Lok	46	Chief Financial Officer
Richard J.F. Bronks	49	Director <sup>(2)</sup>
William Lawes	71	Director <sup>(2)</sup>
Bjorn Moller	57	Director
Richard T. du Moulin	68	Director <sup>(2)</sup>

(1) Effective June 20, 2014.

(2) Member of Audit Committee, Conflicts Committee, and Nominating and Governance Committee.

Certain biographical information about each of these individuals is set forth below.

**Arthur Bensler** joined our Board of Directors as Chairman on June 12, 2013. He has served as our Corporate Secretary from 2007 to September 2014 and as General Counsel to the Company since its inception. Mr. Bensler is Executive Vice President and General Counsel of Teekay Corporation and President of Teekay Shipping (Canada) Ltd. He has more than 15 years of experience in the shipping industry, joining Teekay Corporation in 1998 as General Counsel. He was promoted to the position of Vice President and General Counsel in 2002, became the Corporate

Secretary of Teekay Corporation in 2003 and was further promoted to Executive Vice President and General Counsel in 2006. Mr. Bensler served as Committee Director of the Britannia Steamship Insurance Association Limited from January 2005 to April 2010 and has served as a Committee Director of The Standard Club Ltd., a mutual insurance association, since November 2010, where he is also a member of the Nominating & Governance Committee and the Strategy Committee.

**Kevin Mackay** was appointed as our President & Chief Executive Officer on June 20, 2014 and also leads a global network of commercial offices in Asia, Europe and North America, with the responsibility of marketing Teekay's fleet of conventional tankers. Mr. Mackay joined Teekay from Phillips 66, where he headed the global marine business unit, responsible for all aspects of marine transportation, including chartering, operations, demurrage, strategy and freight trading, business improvement and marine risk management. He held a similar role as the General Manager, Commercial Marine at ConocoPhillips from 2009 to 2012 before the formation of Phillips 66. Mr. Mackay started his career working for Neptune Orient Lines in Singapore from 1991 to 1995. He then joined AET Inc. Limited (*AET*) (formerly American Eagle Tankers Inc.) in Houston, where he ultimately was the Regional Director - Americas, Senior Vice President, responsible for AET's business in the Americas. Mr. Mackay holds a B.Sc. (Econ) Honours from the London School of Economics & Political Science.

**Vincent Lok** has served as our Chief Financial Officer since October 2007. Mr. Lok has served as Teekay Corporation's Executive Vice President and Chief Financial Officer since July 2007. He has held a number of finance and accounting positions with Teekay Corporation, including Controller from 1997 until his promotions to the positions of Vice President, Finance in March 2002 and Senior Vice President and Treasurer in February 2004. He was subsequently appointed Senior Vice President and Chief Financial Officer in November 2006. Mr. Lok also serves as the Chief Financial Officer of our Manager. Prior to joining Teekay Corporation, Mr. Lok worked as a Chartered Accountant with Deloitte & Touche LLP. Mr. Lok is also a Chartered Financial Analyst.

**Richard J.F. Bronks** joined our Board of Directors in January 2008. Mr. Bronks retired from Goldman Sachs in 2007, where he held a number of positions during his career. From 2004 until March 2007, Mr. Bronks was responsible for building Goldman Sachs' equity, bond and loan financing business in emerging markets, including Central and Eastern Europe, Russia, the Former Soviet Union, the Middle East, Turkey and Africa. From 1999 to 2004, Mr. Bronks served as a co-head of Goldman's global commodity business, engaged in the trading of commodities and commodity derivatives, and the shipping and storage of physical commodities. From 1993 to 1999, Mr. Bronks served as a member of Goldman's oil derivatives business in London and New York. Prior to joining Goldman Sachs, Mr. Bronks was employed by BP Oil International, in both its oil derivatives business and its crude oil trading business.

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**William Lawes** joined our Board of Directors in January 2008. In January 2014, Mr. Lawes also joined the board of Tanker Investments Ltd., an Oslo Stock Exchange listed company established by Teekay Corporation and Teekay Tankers and served as Chairman of the Audit Committee in 2014. Mr. Lawes served as a Managing Director and a member of the Europe, Africa and Middle East Regional Senior Management Board of JPMorgan Chase and its predecessor banks based in London from 1987 until 2002. His functional responsibility was Chief Credit and Counterparty Risk Officer for the region. Prior to joining JPMorgan Chase, he was Global Head of Shipping Finance at Grindlays Bank. Mr. Lawes is qualified as a member of the Institute of Chartered Accountants of Scotland. Since March 2005, Mr. Lawes has served as a Director and Chairman of the Audit Committee of Diana Shipping Inc., a global provider of shipping transportation services. Prior to his retirement in 2010, Mr. Lawes was a trustee and Chairman of the Finance and Audit Committee of Care International UK, a global humanitarian charity, for 12 years.

**Bjorn Moller** served as our Chief Executive Officer from October 2007 until March 2011. Mr. Moller also served as the President and Chief Executive Officer of Teekay Corporation from April 1998 until March 2011. He also served as Vice Chairman and Director of Teekay GP L.L.C. from when it was formed in November 2004, and Vice Chairman and Director of Teekay Offshore GP L.L.C. from when it was formed in August 2006, in each case until March 2011. Mr. Moller continues to serve as a Director of Teekay Tankers and Teekay Corporation and is a director of Kattegat Limited, the parent company of Resolute Investments, Ltd., the largest shareholder of Teekay Corporation. Mr. Moller has over 35 years of experience in the shipping industry, and served as Chairman of the International Tanker Owners Pollution Federation from 2006 to 2013. He served in senior management positions with Teekay Corporation for more than 20 years, and led Teekay's overall operations from January 1997, following his promotion to the position of Chief Operating Officer. Prior to that, Mr. Moller headed Teekay Corporation's global chartering operations and business development activities.

**Richard T. du Moulin** joined our Board of Directors in December 2007. Mr. du Moulin is currently the President of Intrepid Shipping L.L.C., a position he has held since he founded Intrepid Shipping in 2002. From 1998 to 2002, Mr. du Moulin served as Chairman and Chief Executive Officer of Marine Transport Corporation. Mr. du Moulin is a member of the Board of Trustees and Chairman of the Seamens Church Institute of New York and New Jersey. Mr. du Moulin currently serves as a Director of Tidewater Inc. and is on the board of Pangaea Logistics Solutions, Ltd., a dry bulk shipping company. Mr. du Moulin served as Chairman of Intertanko, the leading trade organization for the tanker industry, from 1996 to 1999 and served as a director of Globe Wireless L.L.C.

## **Compensation of Directors and Senior Management**

### **Executive Compensation**

Our executive officers are employees of Teekay Corporation or other subsidiaries thereof, and their compensation (other than any awards under our long-term incentive plan described below) is set and paid by Teekay Corporation or its subsidiaries, and we reimburse Teekay Corporation for time spent by our executive officers on our management matters. This reimbursement is a component of the management fee we pay our Manager, pursuant to the Management Agreement. The aggregate amount of such reimbursement for the year ended December 31, 2014 was \$1.1 million (2013: \$1.4 million; and 2012: \$1.1 million).

### **Compensation of Directors**

Officers of us or Teekay Corporation who serve as our directors do not receive additional compensation for their service as directors. Each of our non-employee directors receives compensation for attending meetings of the Board of Directors, as well as committee meetings. Non-employee directors receive an annual cash fee of \$50,000 and an annual award of \$70,000 paid by way of a grant of at the non-employee director's choice restricted stock units or stock

options. In addition, members of the Audit Committee each receive a committee cash fee of \$7,500 per year, and the chair of the Audit Committee receives a fee of \$12,500 for serving in that role. Members of the Conflicts Committee each receive a committee fee of \$7,500 per year, and the chair of the Conflicts Committee receives a fee of \$12,500 for serving in that role. The chair of the Nominating and Governance Committee receives a fee of \$5,000 for serving in that role. In addition, each director is reimbursed for out-of-pocket expenses in connection with attending meetings of the Board of Directors and committees. Each director is fully indemnified by us for actions associated with being a director to the extent permitted under Marshall Islands law.

During 2014, our four non-employee directors received an aggregate of \$260,000 in cash fees for their services as directors (2013: \$301,250; 2012: \$342,500). In addition each non-employee director received a \$70,000 annual award for 2014 to be paid by way of a grant of, at the director's choice, restricted stock units or stock options, granted under our 2007 Long-Term Incentive Plan Pursuant to this annual retainer, during 2014, we granted options to purchase up to 152,346 shares of Class A Common Stock at an exercise price of \$4.10 and 17,073 restricted stock units (2013: 142,157; and 2012: 82,573) to non-employee directors. The stock options and restricted stock units vest immediately.

### **Long-Term Incentive Program**

In the year ended December 31, 2014, we granted under our 2007 Long-Term Incentive Plan options to acquire up to 110,829 shares of Class A Common stock and 586,014 restricted stock units to certain employees of Teekay's subsidiaries that provide services to us. Each option under the plans has a 10-year term and vests equally over three years from the grant date. Each restricted stock unit is equal in value to one share of our common shares plus reinvested distributions from the grant date to the vesting date. Upon vesting, the value of the restricted stock unit awards is paid to each recipient in the form of shares of Class A common stock. We intend to satisfy these grants by issuing shares from authorized capital. Please read Item 18 Financial Statements: Note 12 Capital Stock.

### **Board Practices**

Our Board of Directors (or the *Board*) currently consists of five members. Directors are appointed to serve for a one-year term and until their successors are appointed or until they resign or are removed.



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There are no service contracts between us and any of our directors providing for benefits upon termination of their employment or service.

The Board has determined that each of our directors, other than Bjorn Moller, previous Chief Executive Officer of Teekay Corporation, and Arthur Bensler, the Executive Vice President and General Counsel of Teekay Corporation, has no material relationship with Teekay Tankers (either directly or as a partner, shareholder or officer of an organization that has a relationship with Teekay Tankers) and is independent within the meaning of Teekay Tankers director independence standards, which reflect the NYSE director independence standards, as currently in effect and as they may be changed from time to time.

The Board has adopted our Corporate Governance Guidelines that address, among other things, director qualification standards, director functions and responsibilities, director access to management, director compensation and management succession. This document is available under the [About Us Corporate Governance](#) section of our website ([www.teekaytankers.com](http://www.teekaytankers.com)).

NYSE does not require a company like ours, which is a foreign private issuer and of which more than 50% of the voting power is held by another company, to have a majority of independent directors on the Board of Directors or to establish compensation or nominating/corporate governance committees composed of independent directors

Nevertheless, the Board has the following three committees: Audit Committee, Conflicts Committee, and Nominating and Governance Committee. The membership of these committees as of December 31, 2014 and the function of each of the committees are described below. Each of the committees is currently comprised of independent members and operates under a written charter adopted by the Board. All of the committee charters are available under [Other Information Corporate Governance](#) in the Investor Centre of our Web site at [www.teekay.com](http://www.teekay.com). During 2014, the Board held six meetings. Directors attended all board meetings, with the exception of two board members who did not attend one meeting. There were three committee member absences from a total of 16 committee meetings in 2014.

Our Audit Committee is composed entirely of directors who satisfy applicable NYSE and SEC audit committee independence standards. Our Audit Committee is comprised of William Lawes (Chair), Richard J.F. Bronks and Richard du Moulin. All members of the committee are financially literate and the Board has determined that Mr. Lawes qualifies as an audit committee financial expert.

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of:

the integrity of our financial statements;

our compliance with legal and regulatory requirements;

the independent auditors' qualifications and independence; and

the performance of our internal audit function and independent auditors.

Our Conflicts Committee is composed entirely of directors who satisfy the heightened NYSE and SEC independence standards applicable to Audit Committee membership. The Conflicts Committee is comprised of Richard du Moulin

(Chair), Richard J.F. Bronks and William Lawes. The Conflicts Committee reviews matters that the Board refers to the committee for consideration and which constitute (a) matters the Board believes may involve conflicts of interest between (i) us and (ii) our controlling stockholder Teekay Corporation or its affiliates (other than us) or (b) material related-party transactions, including transactions between us and our or Teekay Corporation's officers or directors or their affiliates. The Board is not obligated to seek approval of the Conflicts Committee on any matter, and may determine the resolution of any conflict of interest itself.

Our Nominating and Governance Committee is comprised entirely of directors who satisfy the general NYSE independence standards. Our Nominating and Governance Committee is comprised of Richard J.F. Bronks (Chair), Richard du Moulin and William Lawes.

The Nominating and Governance Committee:

identifies individuals qualified to become Board members;

selects and recommends to the Board director and committee member candidates;

maintain oversight of the operation and effectiveness of the Board of Directors and the corporate governance of the Company;

develops, updates and recommends to the Board corporate governance principles and policies applicable to us, monitors compliance with these principles and policies and recommends to the Board appropriate changes;

monitors compliance with such principles and policies;

discharges responsibilities of the Board relating to the Board's compensation; and

oversees the evaluation of the Board and its committees.

#### **Crewing and Staff**

Our Manager provides us with all of our staff other than our Chief Executive Officer and Chief Financial Officer. Our executive officers have the authority to hire additional staff as they deem necessary.

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As of December 31, 2014, approximately 1,239 seagoing staff served on our vessels. The majority of our subsidiaries employ seagoing staff directly and certain subsidiaries of Teekay Corporation employ the crews for one of our vessels. These crews serve on the vessels pursuant to service agreements between our Manager, acting on our behalf, and those subsidiaries.

Teekay Corporation and its affiliates regard attracting and retaining motivated seagoing personnel as a top priority. Teekay Corporation has entered into a Collective Bargaining Agreement with the Philippine Seafarers Union, an affiliate of the International Transport Workers Federation (or ITF), and a Special Agreement with ITF London, which covers substantially all of the officers and seamen that operate our vessels. We believe that Teekay Corporation's relationships with these labor unions are good.

We believe that Teekay Corporation's commitment to training is fundamental to the development of the highest caliber of seafarers for marine operations. Teekay Corporation's cadet training approach is designed to balance academic learning with hands-on training at sea. Teekay Corporation has relationships with training institutions in Australia, Canada, Croatia, India, Latvia, Norway, the Philippines, South Africa and the United Kingdom. After receiving formal instruction at one of these institutions, a cadet's training continues onboard vessels. Teekay Corporation also has a career development plan that was devised to ensure a continuous flow of qualified officers who are trained on its vessels and familiarized with its operational standards, systems and policies. We believe that high-quality crewing and training policies will play an increasingly important role in distinguishing larger independent shipping companies that have in-house or affiliate capabilities from smaller companies that must rely on outside ship managers and crewing agents on the basis of customer service and safety.

**Share Ownership**

The following table sets forth certain information regarding beneficial ownership, as of December 31, 2014, of our Class A common stock by our directors and executive officers as a group. None of these persons beneficially owns any of our Class B common stock. The information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person or entity beneficially owns any shares that the person or entity (a) has or shares voting or investment power or (b) has the right to acquire as of March 1, 2015 (60 days after December 31, 2014) through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table. Information for all persons listed below is based on information delivered to us.

<b>Identity of Person or Group</b>	<b>Class A Common Stock</b>	<b>Percent of Class A Common Stock Owned</b>	<b>Percent of Total Class A and Class B Common Stock Owned<sup>(1)</sup></b>
All directors and executive officers as a group (7 persons) <sup>(1)</sup>	390,368	0.4%	0.3%

(1) Excludes shares of Class A and Class B common stock beneficially owned by Teekay Corporation. Please read Item 7 - Major Shareholders and Related Party Transactions for more detail.

**Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

The following table sets forth information regarding the beneficial ownership, as of February 28, 2015, of our Class A and Class B common stock by each entity or group we know to beneficially own more than 5% of the outstanding shares of our Class A common stock or our Class B common stock. Information for certain holders is based on their latest filings with the SEC or information delivered to us. The number of shares beneficially owned by each entity or group is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person or entity beneficially owns any shares as to which the person or entity has or shares voting or investment power. In addition, an entity or group beneficially owns any shares that the entity or group has the right to acquire as of June 30, 2015 (60 days after April 1, 2015) through the exercise of any stock option or other right. Unless otherwise indicated, each entity or group listed below has sole voting and investment power with respect to the shares set forth in the following table.

<b>Identity of Person or Group</b>	<b>Class A Common Stock</b>	<b>Percent of Class A Common Stock Owned</b>	<b>Class B Common Stock</b>	<b>Percent of Class B Common Stock Owned</b>	<b>Percent of Total Class A and Class B Common Stock Owned</b>
Teekay Corporation <sup>(1)</sup>	12,643,196	12.9%	16,720,945	100.0%	25.5%
T. Rowe Price Associates, Inc., T. Rowe Price Small-Cap Values Fund, Inc., as a group <sup>(2)</sup>	8,654,323	8.8%		0.0%	7.5%
Huber Capital Management, LLC <sup>(3)</sup>	5,421,092	5.5%		0.0%	4.7%

(1) The voting power represented by shares beneficially owned by Teekay Corporation is 7.0% for Class A common stock, 45.9% for Class B common stock and 52.9% for total Class A and Class B common stock.

(2) According to the Schedule 13G filed with the SEC on February 10, 2015, T. Rowe Price Associates, Inc. has sole voting power as to 2,275,660 of the shares, T. Rowe Price Small-Cap Value Fund, Inc. has sole voting power as to 4,946,403 of the shares, and T. Rowe Price Associates, Inc. has sole dispositive power as to all of the shares. The voting power represented by shares beneficially owned by T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc., as a group, is 8.8% for Class A common stock and 7.5% for total Class A and Class B common stock.

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(3) According to the Schedule 13G filed with the SEC on February 12, 2015, Huber Capital Management, LLC has sole voting power as to 3,386,992 of the shares. The voting power represented by shares beneficially owned by Huber Capital Management, LLC is 5.5% for Class A common stock and 4.7% for total Class A and Class B common stock.

Our Class B common stock entitles the holder thereof to five votes per share, subject to a 49% aggregate Class B common stock voting power maximum, while our Class A common stock entitles the holder thereof to one vote per share. Except as otherwise provided by the Marshall Islands Business Corporations Act, holders of shares of our Class A common stock and Class B common stock vote together as a single class on all matters submitted to a vote of stockholders, including the election of directors. Teekay Corporation currently controls all of our outstanding Class B common stock and 12,643,196 shares of our Class A common stock. Because of our dual-class structure, Teekay Corporation may continue to control all matters submitted to our stockholders for approval even if it and its affiliates come to own significantly less than 50% of our outstanding shares of capital stock. Shares of our Class B common stock will convert into shares of our Class A common stock on a one-for-one basis upon certain transfers thereof or if the aggregate number of outstanding shares of Class A common stock and Class B common stock beneficially owned by Teekay Corporation and its affiliates falls below 15% of the aggregate number of outstanding shares of our common stock

We are controlled by Teekay Corporation. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of us.

**B. Related Party Transactions**

Please read Item 18 Financial statements: Note 13 Related Party Transactions for a description of our various related-party transactions.

**Relationship with Teekay Corporation**

**Control**

Through its ownership of our capital stock, Teekay Corporation controls us. Please read Major Shareholders above.

**Business Opportunities**

Under a contribution, conveyance and assumption agreement entered into in connection with our initial public offering in December 2007, Teekay Corporation and we agreed that Teekay Corporation and its other affiliates may pursue any Business Opportunity (as defined below) of which it, they or we become aware. Business Opportunities may include, among other things, opportunities to charter-out, charter-in or acquire oil tankers or to acquire tanker businesses.

Pursuant to the contribution, conveyance and assumption agreement, we agreed that:

Teekay Corporation and its other affiliates may engage (and will have no duty to refrain from engaging) in the same or similar activities or lines of business as us, and that we will not be deemed to have an interest or expectancy in any business opportunity, transaction or other matter (each a Business Opportunity) in which Teekay Corporation or any of its other affiliates engages or seeks to engage merely because we engage in the same or similar activities or lines of business as that related to such Business Opportunity;

if Teekay Corporation or any of its other affiliates (whether through our Manager, any of Teekay Corporation's or any of its other affiliate's officers or directors who are also officers or directors of us, or otherwise) acquires knowledge of a potential Business Opportunity that may be deemed to constitute a corporate opportunity of both Teekay Corporation and us, then (i) neither Teekay Corporation, our Manager nor any of such officers or directors will have any duty to communicate or offer such Business Opportunity to us and (ii) Teekay Corporation may pursue or acquire such Business Opportunity for itself or direct such Business Opportunity to another person or entity; and

any Business Opportunity of which our Manager or any person who is an officer or director of Teekay Corporation (or any of its other affiliates) and of us becomes aware shall be a Business Opportunity of Teekay Corporation.

If Teekay Corporation or its other affiliates no longer beneficially own shares representing at least 20% of the total voting power of our outstanding capital stock, and no person who is an officer or director of us is also an officer or director of Teekay Corporation or its other affiliates, then the business opportunity provisions of the contribution, conveyance and assumption agreement will terminate.

Our articles of incorporation also renounce in favor of Teekay Corporation business opportunities that may be attractive to both Teekay Corporation and us. This provision likewise effectively limits the fiduciary duties we or our stockholders otherwise may be owed regarding these business opportunities by our directors and officers who also serve as directors or officers of Teekay Corporation or its other affiliates.

#### **Non-competition Agreement**

In connection with our acquisition from Teekay Corporation of 13 vessels in June 2012 as part of the 2012 Acquired Business transaction, we entered into a non-competition agreement with Teekay Corporation. The following discussion describes certain provisions of the agreement.

*Non-competition.* Under the non-competition agreement, Teekay Corporation has agreed that neither it nor any of its controlled affiliates other than us will own or operate conventional oil or product tankers until June 15, 2015. However, this restriction does not prevent Teekay Corporation or any of its controlled affiliates from, among other things:

- a) owning, operating or chartering any conventional oil or product tankers that Teekay Corporation and its controlled subsidiaries owned or chartered-in as of June 15, 2012 (or any replacement tankers upon any actual or constructive loss of such vessels);

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- b) providing ship management services relating to conventional oil or product tankers; or
- c) acquiring up to a 9.9 percent interest in any publicly traded company that owns, operates or charters conventional oil or product tankers; acquiring up to a 50 percent interest in any company that engages no more than the lesser of 20 percent of its assets or \$100 million in the business of owning, operating or chartering conventional oil or product tankers; or owning any interests in us, Teekay Offshore Partners L.P. or Teekay LNG Partners L.P.

*Right of First Refusal.* The non-competition agreement also provides us with a right of first refusal to acquire existing or newbuilding conventional and product tankers pursuant to opportunities Teekay Corporation develops prior to June 15, 2015. The non-competition agreement generally provides that Teekay Corporation must offer us such acquisition opportunities at their fair market value, for existing tankers, or the fully built-up cost, for newbuildings, and the price may include an allocation of design and development costs for any newbuildings constructed using an energy efficient design developed by Teekay Corporation.

Please see Item 10 Additional Information: Material Contracts.

**Teekay Tankers Executive Officers and Certain of its Directors**

Kevin Mackay, who has served since June 2014 as our President and Chief Executive Officer, is also an executive office of our Manager and a member of the executive team of Teekay Corporation.

Vincent Lok, our Chief Financial Officer, is also the Chief Financial Officer of our Manager and the Executive Vice President and Chief Financial Officer of Teekay Corporation.

Arthur Bensler, our Chairman of the Board, is also Executive Vice President and General Counsel of Teekay Corporation and President of Teekay Shipping (Canada) Ltd.

Because our executive officers are employees of Teekay Corporation or other of its subsidiaries, their compensation (other than any awards under our long-term incentive plan) is set and paid by Teekay Corporation or such other applicable subsidiaries. Pursuant to an agreement with Teekay Corporation, we have agreed to reimburse Teekay Corporation or its applicable subsidiaries for time spent by our executive officers on our management matters.

**Registration Rights Agreement**

In connection with our initial public offering, we entered into a registration rights agreement with Teekay Corporation pursuant to which we granted Teekay Corporation and its affiliates certain registration rights with respect to shares of our Class A and Class B common stock owned by them. Pursuant to the agreement, Teekay Corporation has the right, subject to certain terms and conditions, to require us, on up to three separate occasions, to register under the U.S. Securities Act of 1933 shares of Class A common stock, including Class A common stock issuable upon conversion of Class B common stock, held by Teekay Corporation and its affiliates for offer and sale to the public (including by way of underwritten public offering) and incidental or piggyback rights permitting participation in certain registrations of our common stock.

**Management Agreement**

In connection with our initial public offering in December 2007, we entered into the long-term Management Agreement with our Manager, Teekay Tankers Management Services Ltd., a subsidiary of Teekay Corporation.

Pursuant to the Management Agreement, the Manager provides the following types of services to us: commercial (primarily vessel chartering), technical (primarily vessel maintenance and crewing), administrative (primarily accounting, legal and financial) and strategic (primarily advising on acquisitions, strategic planning and general management of the business).

Our Manager has agreed to use its best efforts to provide these services upon our request in a commercially reasonable manner and may provide these services directly to us or subcontract for certain of these services with other entities, primarily other Teekay Corporation subsidiaries. Under the Management Agreement, our Manager remains responsible for any subcontracted services. We will indemnify our Manager for any losses it incurs in connection with providing services to us, excluding losses caused by the recklessness, gross negligence or willful misconduct of our Manager or its employees or agents, for which losses our Manager will indemnify us.

### ***Compensation of the Manager***

**Management Fee.** In return for services under the Management Agreement, we pay our Manager a management fee based on the following components:

Commercial services fee. We pay a fee to our Manager for commercial services it provides to us currently equal to 1.25% of the gross revenue attributable to the vessels, on time charter, our Manager commercially manages for us (excluding vessels participating in the Gemini Suezmax Pool, Teekay Aframax Pools or the Taurus Tankers LR2 Pool). We paid commercial service fees of \$1.1 million for 2014, \$1.1 million for 2013, and \$1.1 million for 2012.

Technical services fee. We pay a fee to our Manager for technical services fees, and we paid technical services fees of \$5.6 million for 2014, \$5.6 million for 2013, and \$6.9 million for 2012 including the technical management fees of \$2.6 million attributable to the Dropdown Predecessor. Please see Item 18 Financial Statements: Note 1 Summary of Significant Accounting Policies Dropdown Predecessor, in our consolidated financial statements included in this Annual Report.

Administrative and strategic services fees. We pay fees to our Manager for administrative and strategic services that reimburse our Manager for its related direct and indirect expenses in providing such services and which includes a profit margin. The amount of the profit margin is based on the most recent transfer pricing study performed by an independent, nationally recognized accounting firm with respect to similar administrative and strategic services. The transfer pricing study is updated at least annually. We paid administrative and strategic services fees of \$8.7 million for 2014, \$10.8 million for 2013, and \$5.5 million for 2012.



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**Performance Fee.** In order to provide our Manager with an incentive to improve the results of our operations and financial condition, the Management Agreement also provides for payment to our Manager of a performance fee in certain circumstances, in addition to the basic fees described above. Our Manager generally is entitled to payment of a performance fee equal to 20% of the Gross Cash Available for Distribution (as defined in the Management Agreement) if in a given fiscal year this figure exceeds \$3.20 per share of our common stock (subject to adjustment for stock dividends, splits, combinations and similar events, and based on the weighted-average number of shares outstanding for the year) (or the *Incentive Threshold*).

Since January 1, 2008, we have maintained an internal account (or the *Cumulative Dividend Account*) that reflects, on an aggregate basis, the amount by which our dividends for a fiscal year are greater or less than the \$2.65 per share annual incentive baseline (subject to adjustments for stock dividends, splits, combinations and similar events, and based on the weighted-average number of shares outstanding for the fiscal year). The Cumulative Dividend Account is intended to ensure that our stockholders receive an equivalent of at least \$2.65 per share in annualized dividends before any performance fee is paid. If Gross Cash Available for Distribution per share exceeds the Incentive Threshold in respect of a particular fiscal year, we will only pay our Manager a performance fee if the Cumulative Dividend Account is zero or positive; if there is a deficit in the Cumulative Dividend Account, the performance fee may be reduced. Following the end of each five-year period, commencing January 1, 2013, the Cumulative Dividend Account balance will be reset to zero. We paid no performance fees to our Manager in 2014, 2013, or 2012.

**Term and Termination Rights.** Subject to certain termination rights, the initial term of the Management Agreement will expire on December 31, 2022. If not terminated, the Management Agreement will automatically renew for a five-year period and thereafter be extended in additional five-year increments if we do not provide notice of termination in the fourth quarter of the year immediately preceding the end of the respective term.

We may terminate the Management Agreement in certain circumstances, including, among others, if:

our Manager materially breaches the Management Agreement (and the matter is unresolved after a 90-day dispute resolution period) or experiences certain bankruptcy events or experiences a change of control to which we do not consent;

we provide notice in the fourth quarter of 2016 after two-thirds of our Board of Directors elects to terminate the Management Agreement, which termination would be effective on December 31, 2017; or

we provide notice in the fourth quarter of 2021, which termination would be effective on December 31, 2022. If the Management Agreement extends pursuant to its terms as described above, we can elect to exercise this optional termination right in the fourth quarter of the year immediately preceding the end of the respective term.

If we elect to terminate the Management Agreement under either of the last two bullet points described above, our Manager will receive a payment (the *Termination Payment*) in an amount equal to the aggregate performance fees payable for the immediately preceding five fiscal years. Any Termination Payment will be paid to our Manager in four quarterly installments over the course of the fiscal year following termination.

Our Manager may terminate the Management Agreement prior to the end of its term under either of the following two circumstances:

after December 18, 2012 with 12 months notice. At our option, our Manager will continue to provide technical services to us for up to an additional two-year period from termination, provided that our Manager or its affiliates continue in the business of providing such services to third parties for similar types of vessels; or

if we materially breach the agreement and the matter is unresolved after a 90-day dispute resolution period. If our Manager elects to terminate the Management Agreement under the second circumstance described above, our Manager will receive the Termination Payment, payable in four quarterly installments over the course of the first year following termination.

The Management Agreement will terminate automatically and immediately if we experience any of certain changes of control. Upon any such termination, we will be required to pay our Manager the Termination Payment in a single installment.

### **Pooling Agreements**

#### **Gemini Suezmax Pool**

We along with Teekay Corporation and certain third party vessel owners and operators are parties to a revenue sharing pool agreement (the *Gemini Pooling Agreement*) pursuant to which these pool participants have each agreed to procure to include in the pool certain qualifying Suezmax-class crude tankers of the pool participants and their respective affiliates, including us, that operate in the spot market or pursuant to time charters of less than one year. The Gemini Suezmax Pool is jointly and equally owned by TTOL, in which Teekay Corporation and we each have a 50% interest, and a third party.

As of December 31, 2014, the Gemini Suezmax Pool consisted of 25 Suezmax tankers, including ten of our tankers. A participating Suezmax tanker will no longer participate in the Gemini Suezmax Pool if it becomes subject to a time charter with a term exceeding one year, unless otherwise agreed by all pool participants. In addition, vessels no longer participate in the pool if they suffer an actual or constructive total loss or if they are sold to or become controlled by a person who is not an affiliate of a party to the Gemini Pooling Agreement. Vessel owners remain responsible for the technical management of their vessels in the Gemini Suezmax Pool, and our Manager provides these technical services with respect our vessels pursuant to the Management Agreement.

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***Allocation of Gemini Pool Earnings.*** The Gemini Suezmax Pool provides a revenue sharing mechanism whereby aggregate revenues and related expenses of the pool are distributed to pool participants based on an allocation formula. Revenues generated by vessels operating in the Gemini Suezmax Pool less voyage expenses (such as fuel and port charges) incurred by these vessels and other applicable expenses are pooled and allocated according to a specified weighting system that recognizes each vessel's earnings capability based on its characteristics, speed and bunker consumption, as well as actual on-hire performance. The allocation for each vessel participating in the pool is established based on observations and historical consumption and performance measures of the individual vessel. Payments based on net cash flow applicable to each tanker are made on a monthly basis to pool participants and adjusted every six months based on the weighting system.

***Commercial Management Fee and Working Capital Payments.*** Gemini Tankers, a jointly owned company by TTOL and a third party, provides commercial services to pool participants and otherwise administers the pool in exchange for a fee currently equal to \$325 per vessel per day (which increased from \$275 per vessel per day commencing July 1, 2012) plus 1.25% of the gross revenues attributable to the participant's vessels.

Effective February 1, 2012, vessels entering the Gemini Suezmax Pool are required to have approximately 3,000 metric tons of bunker fuel on board. Any difference between this amount and the actual quantity on board is added to or subtracted from a working capital contribution requirement, with valuation of bunker fuel based on the last invoiced price prior to joining the pool. Working capital in an aggregate amount of \$2.0 million is required, subject to the bunker fuel adjustment described above and to a \$300,000 minimum adjusted working capital amount. If a vessel has less than 2,000 metric tons of bunker fuel on board, it may be refused entry to the pool until such time as the bunker fuel quantities meet the required limits. Working capital advances are returned when a vessel no longer participates in the pool, less any set-offs for outstanding liabilities or contingencies and taking into account the differences in bunker fuel values at the time of withdrawal compared to when the vessel entered into the pool. Please read Item 18 Financial Statements: Note 13(h) Related Party Transactions.

***Term and Termination.*** There is no specific expiration date for the Gemini Pooling Agreement. However, the Gemini Suezmax Pool may be wound up upon unanimous agreement of all participants or upon 90 days advance notice by Gemini Tankers. A pool participant may withdraw from the Gemini Pool upon at least 30 days' notice and shall cease to participate in the Gemini Pool if, among other things, it materially breaches the Gemini Pooling Agreement and fails to resolve the breach within a specified cure period or experiences certain bankruptcy events.

**Teekay Aframax Pools**

We entered into revenue sharing pool agreements (the *Teekay Pooling Agreements*) with Teekay Corporation and Teekay Chartering Limited, a subsidiary of TTOL. Pursuant to the Teekay Pooling Agreements, we and Teekay Corporation have agreed to include in the Teekay Aframax Pools all of our and its respective Aframax-class oil tankers that are employed in the spot market or operate pursuant to time charters of less than 90 days. As of December 31, 2014, the Teekay Aframax Pools consisted of 34 Aframax tankers, which included three of our owned tankers and seven of our in-chartered tankers. Any Aframax tanker that becomes subject to a time charter with a term of at least 90 days or becomes subject to enforcement action under a ship-mortgage foreclosure or similar proceeding will no longer participate in the Teekay Aframax Pools, unless otherwise agreed by Teekay Corporation and us. In addition, vessels will no longer participate in the pool if they suffer an actual or constructive total loss or if they are sold to or become controlled by a third party who is not a party to the Teekay Pooling Agreements.

Under the Teekay Pooling Agreements, Teekay Chartering Limited commercially manages the Teekay Aframax Pools by providing chartering and marketing services for all participating tankers. We remain responsible for the technical management of our vessels in the Teekay Aframax Pools, and our Manager provides these technical services to us

pursuant to the Management Agreement.

**Allocation of Teekay Aframax Pools Earnings.** The Teekay Aframax Pools provide a revenue sharing mechanism whereby aggregate revenues and related expenses of the pools are distributed to pools participants based on an allocation formula. Revenues generated by vessels operating in the Teekay Aframax Pools less voyage expenses (such as fuel and port charges) incurred by these vessels and other applicable expenses are pooled and allocated according to a specified weighting system that recognizes each vessel's earnings capability based on its characteristics, speed and bunker consumption, as well as actual on-hire performance. The allocation for each vessel participating in the pools is established based on observations and historical consumption and performance measures of the individual vessel. Payments based on net cash flow applicable to each tanker are made on a monthly basis to pools participants and adjusted every six months based on the weighting system.

**Commercial Management Fee and Working Capital Payments.** Teekay Chartering Limited provides commercial services to us and otherwise administers the pools in exchange for a fee currently equal to \$350 per vessel per day plus 1.25% of the gross revenues attributable to the participant's vessels. The amount of the daily per vessel fee is adjusted every three years by agreement between Teekay Chartering Limited and us or, if needed, by arbitration.

Upon delivery of each of our vessels to the Teekay Aframax Pools, we are required to advance to Teekay Chartering Limited \$250,000 for working capital purposes. We may be required to advance additional working capital funds from time to time. Working capital advances will be returned to us when a vessel no longer participates in the pools, less any set-offs for outstanding liabilities or contingencies. Please read Item 18 Financial Statements: Note 13(h) Related Party Transactions.

**Term and Termination Rights.** Subject to certain termination rights, the initial term of the Teekay Pooling Agreement expires on December 31, 2022. If not terminated, the Teekay Pooling Agreement will automatically renew for a five-year period and thereafter be extended in additional five-year increments unless we provide a notice of termination in the fourth quarter of the year immediately preceding the end of the respective term.

We may also terminate the Teekay Pooling Agreement in certain other circumstances, including, among others, if:

Teekay Chartering Limited or Teekay Corporation materially breaches the Teekay Pooling Agreement (and the matter is unresolved after a 90-day dispute resolution period) or experiences certain bankruptcy events or if Teekay Chartering Limited experiences a change of control to which we do not consent; or

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the Management Agreement terminates for any reason.

Either Teekay Chartering Limited or Teekay Corporation may terminate the Teekay Pooling Agreement prior to the end of its term under any of the following circumstances:

after December 18, 2012 with 12 months notice;

if we materially breach the Teekay Pooling Agreement and the matter is unresolved after a 90-day dispute resolution period; or

if the Management Agreement terminates for any reason.

**Taurus Tankers LR2 Pool**

We along with Teekay Corporation and certain third party vessel owners and operators are parties to a revenue sharing pool agreement (the *Taurus Pooling Agreement*) pursuant to which these pool participants have each agreed to include in the pool certain qualifying LR2-class product tankers of the pool participants and their respective affiliates, including us, that operate in the spot market or pursuant to time charters of less than 180 days unless otherwise agreed by all pool participants. The Taurus Tankers LR2 Pool is indirectly owned by TTOL.

As of December 31, 2014, the Taurus Tankers LR2 Pool consisted of 18 LR2 product tankers, including three of our owned LR2 product tankers and four chartered-in tankers. A participating LR2 product tanker will no longer participate in the Taurus Tankers LR2 Pool if it becomes subject to a time charter with a term exceeding 180 days, unless otherwise agreed by all pool participants. In addition, vessels will no longer participate in the pool if they suffer an actual or constructive total loss or if they are sold to or become controlled by a person who is not an affiliate of a party to the Taurus Pooling Agreement.

Vessel owners remain responsible for the technical management of their vessels in the Taurus Tankers LR2 Pool, and our Manager provides these technical services with respect our vessels pursuant to the Management Agreement.

***Allocation of Taurus Pool Earnings.*** The Taurus Tankers LR2 Pool provides a revenue sharing mechanism whereby aggregate revenues and related expenses of the pool are distributed to pool participants based on an allocation formula. Revenues generated by vessels operating in the Taurus Tankers LR2 Pool less voyage expenses (such as fuel and port charges) incurred by these vessels and other applicable expenses are pooled and allocated according to a specified weighting system that recognizes each vessel's earnings capability based on its characteristics, speed and bunker consumption, and actual on-hire performance. The allocation for each vessel participating in the pool is established based on observations and historical consumption and performance measures of the individual vessel. Payments based on net cash flow applicable to each tanker are made on a monthly basis to pool participants and adjusted at regular intervals throughout the year based on the weighting system.

***Commercial Management Fee and Working Capital Payments.*** Taurus Tankers provides commercial services to pool participants and otherwise administers the pool in exchange for a fee currently equal to \$275 per vessel per day plus 1.25% of the gross revenues attributable to the participant's vessels.

Upon delivery of each of our vessels to the Taurus Tankers LR2 Pool, we are required to advance \$250,000 for working capital purposes, plus approximately 2,000 metric tonnes of bunkers. We may be required to advance

additional working capital funds from time to time. Working capital advances will be returned to us when a vessel no longer participates in the pool, less any set-offs for outstanding liabilities or contingencies. Please read Item 18 Financial Statements: Note 13(h) Related Party Transactions

**Term and Termination.** There is no specific expiration date for the Taurus Pooling Agreement. However, the pool may be wound up upon unanimous agreement of all participants or upon 180 days advance notice by Taurus Tankers. A pool participant may withdraw from the Taurus Tankers LR2 Pool upon at least 90 days notice and shall cease to participate in the Taurus Tankers LR2 Pool if, among other things, it materially breaches the Taurus Pooling Agreement and fails to resolve the breach within a specified cure period or experiences certain bankruptcy events.

#### **Acquisition of Teekay's Commercial and Technical Operations (TTOL)**

On August 1, 2014, we purchased from Teekay Corporation a 50% interest in TTOL, which owns conventional tanker commercial management and technical management operations, including direct ownership in three commercially managed tanker pools (as described above), for an aggregate price of approximately \$23.5 million, including net working capital. As consideration for this acquisition, we issued to Teekay Corporation 4.2 million Class B common shares, which had an approximate value of \$17 million, or \$4.03 per share, on the acquisition closing date. In addition, we reimbursed Teekay Corporation for \$6.5 million of working capital we assumed from Teekay Corporation in connection with the purchase.

#### **Investment in Tanker Investments Ltd. (TIL)**

In January 2014, we and Teekay Corporation jointly created TIL, which seeks to opportunistically acquire, operate, and sell modern secondhand tankers to benefit from an expected recovery of the tanker market. TIL completed a \$250 million equity private placement in which we and Teekay Corporation co-invested \$25 million each for a combined 20% initial ownership in the new company. In addition, each of we and Teekay Corporation received (a) a preferred share entitling it to appoint one TIL director and (b) a stock purchase warrant to acquire up to an additional 750,000 shares of TIL's common stock, linked to TIL's future share price performance. Please see Item 18 Financial Statements: Note 9 Derivative Instruments, in our consolidated financial statements included in this Annual Report. In March 2014, TIL completed a \$175 million initial public offering and listed its shares on the Oslo Stock Exchange, which reduced our ownership interest in TIL from 10.0% to 6.5%.

In October 2014, we purchased in the open market an additional 0.9 million common shares in TIL, representing 2.43% of the then outstanding common shares of TIL. We acquired these shares at a price of NOK 69 per share, or a purchase price of \$10.0 million. Following completion of the purchase, we held 3.4 million common shares in TIL, representing 8.94% of the then outstanding common shares of TIL. As a result of a TIL share repurchase program, as of December 31, 2014, we owned 9.29% of TIL's common stock.

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As of December 31, 2014, TIL had completed the acquisition of two 2010-built VLCC vessels from us, for an aggregate purchase price of \$154 million plus related working capital on closing of \$1.7 million, four 2009-built Suezmax tankers from Teekay Corporation and six 2009, 2010 and 2011-built Aframax tankers and two 2012-built coated Aframax vessels from third parties. As of December 31, 2014, TIL had signed an agreement to acquire four 2009-built and two 2010-built Suezmax tankers from a third party, which are expected to deliver in the first half of 2015, which will bring the total number of vessels owned by TIL to 20.

In January 2014, TIL entered into a long-term management agreement with our Manager, pursuant to which the manager provides to TIL commercial, technical, administrative and corporate services and personnel, including TIL's executive officers, in exchange for management services fees and reimbursement of expenses.

## **Item 8. Financial Information**

### **Consolidated Financial Statements and Notes**

Please see Item 18 – Financial Statements for additional information required to be disclosed under this Item.

### **Legal Proceedings**

From time to time we have been, and we expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations. Please read Item 18 – Financial Statements: Note 19 – Shipbuilding Contracts for a description of legal action we have commenced against STX.

### **Dividend Policy**

Prior to the first quarter of 2013, we paid a variable quarterly cash dividend equal to our Cash Available for Distribution each quarter, subject to any reserves determined by our Board of Directors. Dividends were paid equally on a per-share basis between our Class A common stock and our Class B common stock. Cash Available for Distribution represented net income (loss), plus depreciation and amortization, unrealized losses from derivatives, non-cash items and any write-offs or other non-recurring items, less unrealized gains from derivatives and net income attributed to the historical results of vessels acquired by us from Teekay Corporation, prior to their acquisition by us, for the period these vessels were owned and operated by Teekay Corporation. On February 21, 2013, we announced that our Board of Directors elected to move to a fixed quarterly cash dividend of \$0.03 per share, which commenced in the quarter ended March 31, 2013. Subject to financial results and determination by the Board of Directors, we currently intend to continue to declare and pay a regular fixed quarterly dividend in such amount per share on our Class A common stock and our Class B common stock.

The timing and amount of dividends, if any, will depend, among other things, on our results of operations, financial condition, cash requirements, the requirements of Marshall Islands law, restrictions in financing agreements and other factors deemed relevant by our Board of Directors.

### **Significant Changes**

Please read Item 5 – Operating and Financial Review and Prospects: Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Developments in 2014 and 2015.

**Item 9. The Offer and Listing**

Our Class A common stock is listed on the New York Stock Exchange (or *NYSE*) under the symbol *TNK*. The following table sets forth the high and low prices for our Class A common stock on the NYSE for each of the periods indicated.

<b>Years Ended</b>	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
High	\$ 5.95	\$ 4.02	\$ 6.33	\$ 12.99	\$ 13.96
Low	\$ 3.18	\$ 2.38	\$ 2.38	\$ 3.36	\$ 8.50

<b>Quarters Ended</b>	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013	Mar. 31, 2013
High	\$ 7.05	\$ 5.95	\$ 4.44	\$ 4.50	\$ 5.08	\$ 4.02	\$ 3.09	\$ 3.06	\$ 3.43
Low	\$ 4.82	\$ 3.30	\$ 3.55	\$ 3.18	\$ 3.18	\$ 2.55	\$ 2.49	\$ 2.38	\$ 2.40

<b>Months Ended</b>	Mar. 31, 2015	Feb. 28, 2015	Jan. 31, 2015	Dec. 31, 2014	Nov. 30, 2014	Oct. 31, 2014
High	\$ 5.93	\$ 6.30	\$ 7.05	\$ 5.95	\$ 4.56	\$ 4.25
Low	\$ 5.05	\$ 5.07	\$ 4.82	\$ 4.20	\$ 4.04	\$ 3.30



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### **Item 10. Additional Information**

#### **Articles of Incorporation and Bylaws**

Our Amended and Restated Articles of Incorporation and Amended and Restated Bylaws have been filed as Exhibits 3.1 and 3.2, respectively, to Amendment No. 1 to our Registration Statement on Form F-1 (File No. 333-147798), filed with the SEC on December 11, 2007, and are hereby incorporated by reference into this Annual Report.

The rights, preferences and restrictions attaching to each class of our capital stock are described in the section entitled Description of Capital Stock of our prospectus (File No. 333-196915), filed with the SEC on June 19, 2014, and hereby incorporated by reference into this Annual Report.

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities imposed by the laws of the Republic of The Marshall Islands or by our Articles of Incorporation or Bylaws.

#### **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 we or any of our subsidiaries is a party, for the two years immediately preceding the date of this Annual Report, each of which is included in the list of exhibits in Item 19:

- a) Management Agreement, as amended by Amendment No. 1 dated as of May 7, 2009, Amendment No. 2 dated as of September 21, 2010 and Amendment No. 3 dated as of January 1, 2011.
- b) Teekay Tankers Ltd. 2007 Long-Term Incentive Plan.
- c) Agreement dated November 28, 2007, for a U.S. \$229,000,000 Secured Revolving Credit Facility between Teekay Tankers Ltd., Nordea Bank Finland PLC and various other banks.
- d) Registration Rights Agreement between Teekay Tankers Ltd. and Teekay Corporation.
- e) Shareholders Agreement dated September 30, 2010 for a U.S. \$98,000,000 shipbuilding contract among Teekay Tankers Holding Ltd., Kriss Investment Company and High-Q Investment Ltd.
- f) Purchase Agreement dated June 15, 2012 between Teekay Corporation and Teekay Tankers Ltd. For the sale and purchase of the entire membership interests in Godavari Spirit L.L.C., Axel Spirit L.L.C., Mahanadi Spirit L.L.C., Teesta Spirit L.L.C., Hugli Spirit L.L.C., Americas Spirit L.L.C., Australian Spirit L.L.C., Pinnacle Spirit L.L.C., Donegal Spirit L.L.C., Galway Spirit L.L.C., Limerick Spirit L.L.C., Summit Spirit L.L.C., and Zenith Spirit L.L.C.

- g) Non-competition Agreement dated June 15, 2012 between Teekay Corporation and Teekay Tankers Ltd. Please read Item 7 Major Shareholders and Related Party Transaction: B. Related Party Transactions for a discussion on the agreement.

### **Exchange Controls and Other Limitations Affecting Security Holders**

We are not aware of any governmental laws, decrees or regulations, including foreign exchange controls, in the Republic of The Marshall Islands that restrict the export or import of capital or that affect the remittance of dividends, interest or other payments to non-resident holders of our securities.

We are not aware of any limitations on the right of non-resident or foreign owners to hold or vote our securities imposed by the laws of the Republic of The Marshall Islands or our Articles of Incorporation and Bylaws.

### **Material U.S. Federal Income Tax Considerations**

The following is a discussion of certain material U.S. federal income tax considerations that may be relevant to stockholders. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (or the Code), legislative history, applicable U.S. Treasury Regulations (or Treasury Regulations), judicial authority and administrative interpretations, all as in effect on the date of this Annual Report, and which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to we, our or us are references to Teekay Tankers Ltd.

This discussion is limited to stockholders who hold their common stock as a capital asset for tax purposes. This discussion does not address all tax considerations that may be important to a particular stockholder in light of the stockholder's circumstances, or to certain categories of stockholders that may be subject to special tax rules, such as:

dealers in securities or currencies,

traders in securities that have elected the mark-to-market method of accounting for their securities,

persons whose functional currency is not the U.S. dollar,

persons holding our common stock as part of a hedge, straddle, conversion or other synthetic security or integrated transaction,

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certain U.S. expatriates,

financial institutions,

insurance companies,

persons subject to the alternative minimum tax,

persons that actually or under applicable constructive ownership rules own 10% or more of our common stock; and

entities that are tax-exempt for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners in partnerships holding our common stock should consult their own tax advisor to determine the appropriate tax treatment of the partnership's ownership of our common stocks.

This discussion does not address any U.S. estate tax considerations or tax considerations arising under the laws of any state, local or non-U.S. jurisdiction. Each stockholder is urged to consult its own tax advisor regarding the U.S. federal, state, local and other tax consequences of the ownership or disposition of our common stock.

***United States Federal Income Taxation of U.S. Holders***

As used herein, the term U.S. Holder means a beneficial owner of our common stock that is, for U.S. federal income tax purposes: (i) a U.S. citizen or U.S. resident alien (or a *U.S. Individual Holder*), (ii) a corporation or other entity taxable as a corporation, that was created or organized under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income taxation regardless of its source, or (iv) a trust that either is subject to the supervision of a court within the United States and has one or more U.S. persons with authority to control all of its substantial decisions or has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

***Distributions***

We are taxed as a corporation for U.S. federal income tax purposes. Subject to the discussion of passive foreign investment companies (or *PFICs*) below, any distributions made by us to a U.S. Holder generally will constitute dividends, which may be taxable as ordinary income or qualified dividend income as described in more detail below, to the extent of our current and accumulated earnings and profits allocated to the U.S. Holder's common stock, as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits allocated to the U.S. Holder's common stocks will be treated first as a nontaxable return of capital to the extent of the U.S. Holder's tax basis in its common stock and thereafter as capital gain, which will be either long term or short term capital gain depending upon whether the U.S. Holder has held the stock for more than one year. U.S. Holders that are corporations for U.S. federal income tax purposes generally will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. For purposes of computing allowable

foreign tax credits for U.S. federal income tax purposes, dividends paid with respect to our common stock generally will be treated as foreign source income and generally will be treated as passive category income.

Dividends paid on our common stock to a U.S. Holder who is an individual, trust or estate (or a *Non-Corporate U.S. Holder*) will be treated as qualified dividend income that is taxable to such Non-Corporate U.S. Holder at preferential capital gain tax rates provided that: (i) our common stock is readily tradable on an established securities market in the United States (such as the New York Stock Exchange on which our common stock is traded); (ii) we are not classified as a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (we intend to take the position that we are not now and have never been classified as a PFIC, as discussed below); (iii) the Non-Corporate U.S. Holder has owned the common stock for more than 60 days in the 121 day period beginning 60 days before the date on which the common stock becomes ex dividend; (iv) the Non-Corporate U.S. Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property; and (v) certain other conditions are met. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a Non-Corporate U.S. Holder. Any dividends paid on our common stock not eligible for these preferential rates will be taxed as ordinary income to a Non-Corporate U.S. Holder.

Special rules may apply to any extraordinary dividend paid by us. Generally an extraordinary dividend is a dividend with respect to a share of common stock if the amount of the dividend is equal to or in excess of 10% of a common stockholder's adjusted tax basis (or fair market value in certain circumstances) in such common stock. In addition, extraordinary dividends include dividends received within a one year period that, in the aggregate, equal or exceed 20% of a shareholder's adjusted tax basis (or fair market value in certain circumstances). If we pay an extraordinary dividend on our common stock that is treated as qualified dividend income, then any loss recognized by a Non-Corporate U.S. Holder from the sale or exchange of such common stock will be treated as long term capital loss to the extent of the amount of such dividend.

Certain Non-Corporate U.S. Holders are subject to a 3.8% tax on certain investment income, including dividends. Non-Corporate U.S. Holders should consult their tax advisors regarding the effect, if any, of this tax on their ownership of our common stock.

#### *Sale, Exchange or Other Disposition of Common Stock*

Subject to the discussion of PFICs below, a U.S. Holder generally will recognize capital gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. Subject to the discussion of extraordinary dividends above, such gain or loss generally will be treated as (a) long term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition, or short term capital gain or loss otherwise and (b) U.S. source gain or loss, as applicable, for foreign tax credit purposes. Non-Corporate U.S. Holders may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

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Certain Non-Corporate U.S. Holders are subject to a 3.8% tax on certain investment income, including capital gains from the sale or other disposition of stock. Non-Corporate U.S. Holders should consult their tax advisors regarding the effect, if any, of this tax on their disposition of our common stock.

*Consequences of Possible PFIC Classification*

A non U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to a look through rule, either: (i) at least 75% of its gross income is passive income; or (ii) at least 50% of the average value of its assets is attributable to assets that produce passive income or are held for the production of passive income. For purposes of these tests, passive income includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. By contrast, income derived from the performance of services does not constitute passive income.

There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including legal uncertainties arising from the decision in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Code. However, the Internal Revenue Service (or IRS) stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS's statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the Code. Nevertheless, based on our and our subsidiaries' current assets and operations, we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that the IRS, or a court of law, will accept our position or that we would not constitute a PFIC for any future taxable year if there were to be changes in our or our subsidiaries' assets, income or operations.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a U.S. Holder generally would be subject to different taxation rules depending on whether the U.S. Holder makes a timely and effective election to treat us as a Qualified Electing Fund (a QEF election). As an alternative to making a QEF election, a U.S. Holder should be able to make a mark to market election with respect to our common stock, as discussed below.

**Taxation of U.S. Holders Making a Timely QEF Election.** If a U.S. Holder makes a timely QEF election (an *Electing Holder*), the Electing Holder must report each taxable year for U.S. federal income tax purposes the Electing Holder's pro rata share of our ordinary earnings and net capital gain, if any, for each taxable year for which we are a PFIC that ends with or within the Electing Holder's taxable year, regardless of whether or not the Electing Holder received distributions from us in that year. Such income inclusions would not be eligible for the preferential tax rates applicable to qualified dividend income. The Electing Holder's adjusted tax basis in our common stock will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that were previously taxed will result in a corresponding reduction in the Electing Holder's adjusted tax basis in our common stock and will not be taxed again once distributed. An Electing Holder generally will recognize capital gain or loss on the sale, exchange or other disposition of our common stock. A U.S. Holder makes a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with the U.S. Holder's timely filed U.S. federal income tax return (including extensions).

If a U.S. Holder has not made a timely QEF election with respect to the first year in the U.S. Holder's holding period of our common stock during which we qualified as a PFIC, the U.S. Holder may be treated as having made a timely QEF election by filing a QEF election with the U.S. Holder's timely filed U.S. federal income tax return (including extensions) and, under the rules of Section 1291 of the Code, a deemed sale election to include in income as an excess distribution (described below) the amount of any gain that the U.S. Holder would otherwise recognize if the U.S. Holder sold the U.S. Holder's common stock on the qualification date. The qualification date is the first day of our taxable year in which we qualified as a qualified electing fund with respect to such U.S. Holder. In addition to the above rules, under very limited circumstances, a U.S. Holder may make a retroactive QEF election if the U.S. Holder failed to file the QEF election documents in a timely manner. If a U.S. Holder makes a timely QEF election for one of our taxable years, but did not make such election with respect to the first year in the U.S. Holder's holding period of our common stock during which we qualified as a PFIC and the U.S. Holder did not make the deemed sale election described above, the U.S. Holder also will be subject to the more adverse rules described below.

A U.S. Holder's QEF election will not be effective unless we annually provide the U.S. Holder with certain information concerning our income and gain, calculated in accordance with the Code, to be included with the U.S. Holder's U.S. federal income tax return. We have not provided our U.S. Holders with such information in prior taxable years and do not intend to provide such information in the current taxable year. Accordingly, U.S. Holders will not be able to make an effective QEF election at this time. If, contrary to our expectations, we determine that we are or will be a PFIC for any taxable year, we will provide U.S. Holders with the information necessary to make an effective QEF election with respect to our common stock.

Taxation of U.S. Holders Making a Mark to Market Election. If we were to be treated as a PFIC for any taxable year and, as we anticipate, our stock were treated as marketable stock, then, as an alternative to making a QEF election, a U.S. Holder would be allowed to make a mark to market election with respect to our common stock, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made for the first year a U.S. Holder holds or is deemed to hold our common stock and for which we are a PFIC, the U.S. Holder generally would include as ordinary income in each taxable year that we are a PFIC the excess, if any, of the fair market value of the U.S. Holder's common stock at the end of the taxable year over the U.S. Holder's adjusted tax basis in the common stock. The U.S. Holder also would be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common stock over the fair market value thereof at the end of the taxable year that we are a PFIC, but only to the extent of the net amount previously included in income as a result of the mark to market election. A U.S. Holder's tax basis in our common stock would be adjusted to reflect any such income or loss recognized. Gain recognized on the sale, exchange or other disposition of our common stock in taxable years that we are a PFIC would be treated as ordinary income, and any loss recognized on the sale, exchange or other disposition of our common stock in taxable years that we are a PFIC would be treated as ordinary loss to the extent that such loss does

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not exceed the net mark to market gains previously included in income by the U.S. Holder. Because the mark to market election only applies to marketable stock, however, it would not apply to a U.S. Holder's indirect interest in any of our subsidiaries that were also determined to be PFICs.

If a U.S. Holder makes a mark-to-market election for one of our taxable years and we were a PFIC for a prior taxable year during which such U.S. Holder held our common stock and for which (i) we were not a QEF with respect to such U.S. Holder and (ii) such U.S. Holder did not make a timely mark-to-market election, such U.S. Holder would also be subject to the more adverse rules described below in the first taxable year for which the mark-to-market election is in effect and also to the extent the fair market value of the U.S. Holder's common stock exceeds the U.S. Holder's adjusted tax basis in the common stock at the end of the first taxable year for which the mark-to-market election is in effect.

**Taxation of U.S. Holders Not Making a Timely QEF or Mark to Market Election.** If we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF election or a mark to market election for that year (a *Non Electing Holder*) would be subject to special rules resulting in increased tax liability with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non Electing Holder on our common stock in a taxable year in excess of 125% of the average annual distributions received by the Non Electing Holder in the three preceding taxable years, or, if shorter, the Non Electing Holder's holding period for our common stock), and (2) any gain realized on the sale, exchange or other disposition of our common stock. Under these special rules:

the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for our common stock;

the amount allocated to the current taxable year and any taxable year prior to the taxable year we were first treated as a PFIC with respect to the Non-Electing Holder would be taxed as ordinary income in the current taxable year;

the amount allocated to each of the other taxable years would be subject to U.S. federal income tax at the highest rate of tax in effect for the applicable class of taxpayer for that year; and

an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

Additionally, for each year during which a U.S. Holder owns shares, we are a PFIC, and the total value of all PFIC stock that such U.S. Holder directly or indirectly owns exceeds certain thresholds, such U.S. Holder will be required to file IRS Form 8621 with its annual U.S. federal income tax return to report its ownership of our common stock. In addition, if a Non Electing Holder who is an individual dies while owning our common stock, such Non-Electing Holder's successor generally would not receive a step up in tax basis with respect to such common stock.

**U.S. Holders are urged to consult their own tax advisors regarding the PFIC rules, including the PFIC annual reporting requirements, as well as the applicability, availability and advisability of, and procedure for, making QEF, Mark-to-Market Elections and other available elections with respect to us, and the U.S. federal income tax consequences of making such elections.**

*Consequences of Possible Controlled Foreign Corporation Classification*

If CFC Shareholders (generally, U.S. Holders who each own, directly, indirectly or constructively, 10% or more of the total combined voting power of our outstanding shares entitled to vote) own directly, indirectly or constructively more than 50% of either the total combined voting power of our outstanding shares entitled to vote or the total value of all of our outstanding shares, we generally would be treated as a controlled foreign corporation (or a *CFC*).

CFC Shareholders are treated as receiving current distributions of their respective share of certain income of the CFC without regard to any actual distributions and are subject to other burdensome U.S. federal income tax and administrative requirements but generally are not also subject to the requirements generally applicable to shareholders of a PFIC. In addition, a person who is or has been a CFC Shareholder may recognize ordinary income on the disposition of shares of the CFC. Although we do not believe we are or will become a CFC, U.S. persons owning a substantial interest in us should consider the potential implications of being treated as a CFC Shareholder in the event we become a CFC in the future.

The U.S. federal income tax consequences to U.S. Holders who are not CFC Shareholders would not change in the event we become a CFC in the future.

*U.S. Return Disclosure Requirements for U.S. Individual Holders*

U.S. Individual Holders who hold certain specified foreign financial assets, including stock in a foreign corporation that is not held in an account maintained by a financial institution with an aggregate value in excess of \$50,000 on the last day of a taxable year, or \$75,000 at any time during that taxable year, may be required to report such assets on IRS Form 8938 with their U.S. federal income tax return for that taxable year. This reporting requirement does not apply to U.S. Individual Holders who report their ownership of our shares under the PFIC annual reporting rules described above. Penalties apply for failure to properly complete and file IRS Form 8938. U.S. Individual Holders are encouraged to consult with their own tax advisor regarding the possible application of this disclosure requirement.

***United States Federal Income Taxation of Non-U.S. Holders***

A beneficial owner of our common stock (other than a partnership, including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is a Non U.S. Holder.

*Distributions*

In general, a Non U.S. Holder will not be subject to U.S. federal income tax on distributions received from us with respect to our common stock unless the distributions are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment that the Non-U.S. Holder maintains in the United



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States). If a Non-U.S. Holder is engaged in a U.S. trade or business and the distributions are deemed to be effectively connected to that trade or business, the Non-U.S. Holder generally will be subject to U.S. federal income tax on those distributions in the same manner as if it were a U.S. Holder.

### *Sale, Exchange or Other Disposition of Common Stock*

In general, a Non-U.S. Holder is not subject to U.S. federal income tax on any gain resulting from the disposition of our common stock unless (a) such gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment that the Non-U.S. Holder maintains in the United States) or (b) the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year in which such disposition occurs and meets certain other requirements. If a Non-U.S. Holder is engaged in a U.S. trade or business and the disposition of our common stock is deemed to be effectively connected to that trade or business, the Non-U.S. Holder generally will be subject to U.S. federal income tax on the resulting gain in the same manner as if it were a U.S. Holder.

### *Information Reporting and Backup Withholding*

In general, payments of distributions with respect to, or the proceeds of a disposition of, our common stock to a Non-Corporate U.S. Holder will be subject to information reporting requirements. These payments to a Non-Corporate U.S. Holder also may be subject to backup withholding if the Non-Corporate U.S. Holder:

fails to timely provide an accurate taxpayer identification number;

is notified by the IRS that it has failed to report all interest or distributions required to be shown on its U.S. federal income tax returns; or

in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding on payments made to them within the United States, or through a U.S. payor, by certifying their status on IRS Form W-8BEN, W-8BEN-E, W-8ECI, W-8EXP, or W-8IMY, as applicable.

Backup withholding is not an additional tax. Rather, a stockholder generally may obtain a credit for any amount withheld against its liability for U.S. federal income tax (and obtain a refund of any amounts withheld in excess of such liability) by accurately completing and timely filing a U.S. federal income tax return with the IRS.

## **Non-United States Tax Considerations**

### *Marshall Islands Tax Considerations*

Because we and our subsidiaries do not, and we do not expect that we and our subsidiaries will, conduct business or operations in the Republic of The Marshall Islands, and because all documentation related to our initial public offering was executed outside of the Republic of The Marshall Islands, under current Marshall Islands law, no taxes or withholdings will be imposed by the Republic of the Marshall Islands on distributions, including upon a return of capital, made to stockholders, so long as such persons are not citizens of and do not reside in, maintain offices in, nor

engage in business in the Republic of The Marshall Islands. Furthermore, no stamp, capital gains or other taxes will be imposed by the Republic of The Marshall Islands on the purchase, ownership or disposition by such persons of our common stock.

### **Documents on Display**

Documents concerning us that are referred to herein may be inspected at our principal executive headquarters at 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08 Bermuda. Those documents electronically filed via the SEC's Electronic Data Gathering, Analysis, and Retrieval (or *EDGAR*) system may also be obtained from the SEC's website at [www.sec.gov](http://www.sec.gov), free of charge, or from the Public Reference Section of the SEC at 100F Street, N.E., Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330.

### **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk from foreign currency fluctuations, changes in interest rates, changes in spot tanker market rates and changes in the stock price of TIL in connection with our warrant to purchase TIL common shares. We have not used foreign currency forward contracts to manage foreign currency fluctuation, but we may do so in the future. We use interest rate swaps to manage interest rate risks. We do not use these financial instruments for trading or speculative purposes.

#### **Foreign Currency Fluctuation Risk**

Our primary economic environment is the international shipping market. Transactions in this market generally utilize the U.S. Dollars. Consequently, virtually all our revenues and the majority of our operating costs are in U.S. Dollars. We incur certain voyage expenses, vessel operating expenses, dry-docking expenditures and general and administrative expenses in foreign currencies, the most significant of which are Euro, Canadian Dollar and British Pound. We did not enter into forward contracts as a hedge against changes in certain foreign exchange rates during 2014, 2013 or 2012.

**Table of Contents****Interest Rate Risk**

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

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

The table below provides information about financial instruments as at December 31, 2014, that are sensitive to changes in interest rates, including our debt and interest rate swaps. For long-term debt, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value Asset / Liability	Rate <sup>(1)</sup>
	(in millions of U.S. dollars, except percentages)								
<b>Long-term debt:</b>									
Variable rate <sup>(2)</sup>	32.2	72.8	406.4	45.2	21.9	39.8	618.3	(579.9)	0.83%
Fixed-rate	9.8	9.8	8.9	8.0	1.3		37.8	(37.9)	4.80%
<b>Interest Rate Swaps:</b>									
U.S. Dollar-denominated interest rate swap <sup>(2) (3)</sup>		200.0					200.0	(6.1)	2.61%
U.S. Dollar-denominated interest rate swap <sup>(2) (3)</sup>			100.0				100.0	(12.1)	5.55%

- (1) Rate refers to the weighted-average effective interest rate for our long-term debt as at December 31, 2014, including the margin we pay on our variable-rate and fixed-rate debt. The fixed rate we pay under our interest rate swap agreements, as shown above, excludes the margin we pay on our variable-rate debt.
- (2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR.
- (3) The average variable rate paid to us under our interest rate swaps is set quarterly at the six-month and three-month LIBOR, respectively.

**Equity Price Risk**

We are exposed to the changes in the stock price of TIL. We have a stock purchase warrant entitling us to purchase up to 750,000 shares of common stock of TIL at a fixed price of \$10 per share. Alternatively, if the shares of TIL's common stock trade on a National Stock Exchange or over-the-counter market denominated in Norwegian Kroner, the Company may also exercise the stock purchase warrant at 61.67 Norwegian Kroner (or NOK) per share. The stock purchase warrant vests in four equally sized tranches. Each tranche will vest and become exercisable when and if the fair market value of a share of the TIL common stock equals or exceeds 77.08 NOK, 92.50 NOK, 107.91 NOK and 123.22 NOK, respectively, for such tranche for any ten consecutive trading days. The stock purchase warrant expires

on January 23, 2019. Please read Item 18 Financial Statements: Note 9 Derivative Instruments.

### **Spot Tanker Market Rate Risk**

The cyclical nature of the tanker industry causes significant increases or decreases in the revenue that we earn from our vessels, particularly those that trade in the spot tanker market. From time to time we may use forward freight agreements as a hedge to protect against changes in spot tanker market rates. Forward freight agreements involve contracts to provide a fixed number of theoretical voyages along a specified route at a contracted charter rate. Forward freight agreements settle in cash based on the difference between the contracted charter rate and the average rate of an identified index. As at March 31, 2015, we had not entered into any forward freight agreements, although we may do so in the future.

### **Item 12. Description of Securities Other than Equity Securities**

Not applicable.

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

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**Item 15. Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (or the *Exchange Act*)) that are designed to ensure that (i) information required to be disclosed in our reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We conducted an evaluation of our disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2014.

The Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or internal controls will prevent all error and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within us have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining for us adequate internal controls over financial reporting.

Our internal controls were designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal controls over financial reporting include those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of management and our directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. Based on the evaluation, management determined that internal controls over financial reporting were effective as of December 31, 2014.

Our independent auditors, KPMG LLP, an independent registered public accounting firm, has audited the accompanying consolidated financial statements and our internal control over financial reporting. Their attestation report on the effectiveness of our internal control over financial reporting can be found on page F-2 of this Annual Report.

There were no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rule 13a-15 (f) under the Exchange Act) that occurred during the year ended December 31, 2014.

#### **Item 16A. Audit Committee Financial Expert**

The Board of Directors has determined that director and Chair of the Audit Committee, William Lawes, qualifies as an audit committee financial expert and is independent under applicable NYSE and SEC standards.

#### **Item 16B. Code of Ethics**

We have adopted a Standards of Business Conduct Policy for all our employees and directors. This document is available under Investors Teekay Tankers Ltd. - Governance from the Home Page of our web site ([www.teekay.com](http://www.teekay.com)). We also intend to disclose, under the Investors Teekay Corporation Governance section of our web site, any waivers to or amendments of our Standards of Business Conduct Policy for the benefit of our directors and executive officers.

#### **Item 16C. Principal Accountant Fees and Services**

Our principal accountant for 2014 and 2013 was KPMG LLP, Chartered Accountants. The following table shows the fees we paid or accrued for audit services provided by KPMG LLP.

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<b>Fees (in thousands of U.S. dollars)</b>	<b>2014</b>	<b>2013</b>
Audit Fees <sup>(1)</sup>	275	225
Audit-related Fees <sup>(2)</sup>	5	
	280	225

(1) Audit fees represent fees for professional services provided in connection with the audit of our consolidated financial statements, review of our quarterly consolidated financial statements, as well as other professional services in connection with the review of our regulatory filings.

(2) Audit-related fees relate primarily to assistance with general accounting issues.

No fees for tax or other services were provided to the Company by the auditors during the terms of their appointment in 2014 and 2013.

The Audit Committee of our Board of Directors has the authority to pre-approve permissible audit-related and non-audit services not prohibited by law to be performed by our independent auditors and any associated fees. Engagements for proposed services either may be separately pre-approved by the Audit Committee or entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee, as long as the Audit Committee is informed on a timely basis of any engagement entered into on that basis. The Audit Committee separately pre-approved all engagements and fees paid to our principal accountants in 2014 and 2013.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

The following are the significant ways in which our corporate governance practices differ from those followed by domestic companies:

In lieu of obtaining shareholder approval prior to the adoption of equity compensation plans, the Board of Directors approves such adoption, as permitted by New York Stock Exchange rules for foreign private issuers.

There are no other significant ways in which our corporate governance practices differ from those followed by controlled domestic companies under the listing requirements of the New York Stock Exchange. See Item 6 Directors, Senior Management and Employees: Board Practices.

**Item 16H. Mine Safety Disclosure**

Not applicable

**Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

The following financial statements, together with the related reports of KPMG LLP, Independent Registered Public Accounting Firm, thereon are filed as part of this Annual Report:

	<b>Page</b>
<u>Reports of Independent Registered Public Accounting Firm</u>	F-1 F-2
<b><u>Consolidated Financial Statements</u></b>	
<u>Consolidated Statements of (Loss) Income</u>	F-3
<u>Consolidated Balance Sheets</u>	F-4
<u>Consolidated Statements of Cash Flows</u>	F-5
<u>Consolidated Statements of Changes in Equity</u>	F-6
<u>Notes to the Consolidated Financial Statements</u>	F-7 F-22



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All schedules for which provision is made in the applicable accounting regulations of the SEC are not required, are inapplicable or have been disclosed in the Notes to the Consolidated Financial Statements and therefore have been omitted.

**Item 19. Exhibits**

The following exhibits are filed as part of this Annual Report:

- 1.1 Amended and Restated Articles of Incorporation of Teekay Tankers Ltd. (1)
- 1.2 Amended and Restated Bylaws of Teekay Tankers Ltd. (1)
- 4.1 Contribution, Conveyance and Assumption Agreement (1)
- 4.2 Management Agreement, as amended by Amendment No. 1 dated as of May 7, 2009, Amendment No. 2 dated as of September 21, 2010 and Amendment No. 3 dated as of January 1, 2011 (8)
- 4.3 Gross Revenue Sharing Pool Agreement (1)
- 4.4 Teekay Tankers Ltd. 2007 Long-Term Incentive Plan (10)
- 4.5 Agreement dated November 28, 2007, for a U.S. \$229,000,000 Secured Revolving Credit Facility between Teekay Tankers Ltd., Nordea Bank Finland PLC and various other banks. (1)
- 4.6 Registration Rights Agreement between Teekay Tankers Ltd. and Teekay Corporation. (1)
- 4.7 Purchase Agreement dated April 7, 2008, for the purchase of Ganges Spirit L.L.C (formerly Delaware Shipping L.L.C) between Teekay Tankers Ltd., and Teekay Corporation. (2)
- 4.8 Purchase Agreement dated April 7, 2008, for the purchase of Narmada Spirit L.L.C (formerly Adair Shipping L.L.C) between Teekay Tankers Ltd., and Teekay Corporation. (2)
- 4.9 Purchase Agreement dated June 12, 2009 for the purchase of Ashkini Spirit L.L.C (formerly Ingeborg Shipping L.L.C) between Teekay Tankers Ltd., and Teekay Corporation. (3)
- 4.10 Purchase Agreement dated April 6, 2010 between Teekay Corporation and Teekay Tankers Ltd. for the sale and purchase of the entire membership interests in Yamuna Spirit L.L.C., Kaveri Spirit L.L.C., and Helga Spirit L.L.C. (4)
- 4.11 Facility Agreement dated July 5, 2010 for a U.S. \$57,500,000 loan facility among Alpha Elephant Inc, Solar VLCC Corporation, Deutsche Bank Luxembourg S.A. and Deutsche Bank AG, London Branch. (5)
- 4.12 Facility Agreement dated July 5, 2010 for a U.S. \$57,500,000 loan facility among Beta Elephant Inc, Solar VLCC Corporation, Deutsche Bank Luxembourg S.A. and Deutsche Bank AG, London Branch. (5)
- 4.13 Transfer Certificate dated July 15, 2010 among Deutsche Bank Luxembourg S.A., Deutsche Bank AG, London Branch and VLCC A Investment L.L.C. (5)
- 4.14 Transfer Certificate dated July 15, 2010 among Deutsche Bank Luxembourg S.A., Deutsche Bank AG, London Branch and VLCC B Investment L.L.C. (5)
- 4.15 Shareholders Agreement dated September 30, 2010 for a U.S. \$98,000,000 shipbuilding contract among Teekay Tankers Holding Ltd., Kriss Investment Company and High-Q Investment Ltd. (6)

- 4.16 Purchase Agreement dated November 1, 2010 between Teekay Corporation and Teekay Tankers Ltd. For the sale and purchase of the entire membership interests in Esther Spirit L.L.C., and Iskmati Spirit L.L.C. (7)
  - 4.17 Purchase Agreement dated June 15, 2012 between Teekay Corporation and Teekay Tankers Ltd. For the sale and purchase of the entire membership interests in Godavari Spirit L.L.C., Axel Spirit L.L.C., Mahanadi Spirit L.L.C., Teesta Spirit L.L.C., Hugli Spirit L.L.C., Americas Spirit L.L.C., Australian Spirit L.L.C., Pinnacle Spirit L.L.C., Donegal Spirit L.L.C., Galway Spirit L.L.C., Limerick Spirit L.L.C., Summit Spirit L.L.C., and Zenith Spirit L.L.C.. (9)
  - 4.18 Non-competition Agreement dated June 15, 2012 between Teekay Corporation and Teekay Tankers Ltd. (11)
  - 8.1 List of Subsidiaries of Teekay Tankers Ltd.
  - 12.1 Rule 13a-14(a)/15d-14(a) Certification of Teekay Tankers Ltd. s Chief Executive Officer.
  - 12.2 Rule 13a-14(a)/15d-14(a) Certification of Teekay Tankers Ltd. s Chief Financial Officer.
  - 13.1 Teekay Tankers Ltd. Certification of Kevin Mackay, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 13.2 Teekay Tankers Ltd. Certification of Vincent Lok, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 23.1 Consent of KPMG LLP, as independent registered public accounting firm.
  - 101 The following materials for the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2014 formatted in XBRL: (1) the Consolidated Statements of Income (Loss); (2) the Consolidated Balance Sheets; (3) the Consolidated Statements of Cash Flows; (4) the Consolidated Statements of Changes in Equity; and (5) Notes to Consolidated Financial Statements.
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- (1) Previously filed as an exhibit to the Company s Amendment No. 1 to the Registration Statement on Form F-1 (Registration No. 33-147798), filed with the SEC on December 11, 2007, and hereby incorporated by reference to such Amendment No. 1 to Registration Statement.
  - (2) Previously filed as an exhibit to the Company s Report on Form 6-K furnished to the SEC on May 28, 2008, and hereby incorporated by reference to such Report.
  - (3) Previously filed as an exhibit to the Company s Report on Form 6-K furnished to the SEC on September 30, 2009, and hereby incorporated by reference to such Report.
  - (4) Previously filed as an exhibit to the Company s Report on Form 6-K furnished to the SEC on June 1, 2010 and hereby incorporated by reference to such Report.
  - (5) Previously filed as an exhibit to the Company s Report on Form 6-K furnished to the SEC on September 10, 2010 and hereby incorporated by reference to such Report.

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- (6) Previously filed as Exhibit 4.11 to the Company's Report on Form 6-K furnished to the SEC on November 30, 2010 and hereby incorporated by reference to such Report.
- (7) Previously filed as Exhibit 4.12 to the Company's Report on Form 6-K furnished to the SEC on November 30, 2010 and hereby incorporated by reference to such Report.
- (8) Previously filed as an exhibit to the Company's Report on Form 20-F filed with the SEC on April 12, 2011 and hereby incorporated by reference to such Report.
- (9) Previously filed as Exhibit 4.17 to the Company's Report on Form 6-K furnished to the SEC on September 17, 2012 and hereby incorporated by reference to such Report.
- (10) Previously filed as Exhibit 99.1 to the Company's Registration Statement on Form, S-8 filed with the SEC on March 7, 2014 and hereby incorporated by reference to such Registration Statement.
- (11) Previously filed as Exhibit 4.18 to the Company's Report on Form 20-F filed with the SEC on April 30, 2013 and hereby incorporated by reference to such Report.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TEEKAY TANKERS LTD.

Date: April 28, 2015

By: /s/ Vincent Lok  
Vincent Lok  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Teekay Tankers Ltd.

We have audited the accompanying consolidated balance sheets of Teekay Tankers Ltd. (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income (loss), cash flows, and changes in equity for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 28, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

April 28, 2015

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Teekay Tankers Ltd.

We have audited Teekay Tankers Ltd. s ( the Company ) internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting in the accompanying Form 20-F. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014 based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as at December 31, 2014 and 2013, and the related consolidated statements of income (loss), cash flows, and changes in equity for each of the years in the three-year period ended December 31, 2014, and our report dated April 28, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

April 28, 2015

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**Table of Contents****TEEKAY TANKERS LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (LOSS) (note 1)**

(in thousands of U.S. dollars, except share and per share amounts)

	Year Ended December 31, 2014 \$	Year Ended December 31, 2013 \$	Year Ended December 31, 2012 \$
<b>REVENUES</b>			
Time charter revenues (note 13e)	79,804	88,320	123,364
Net pool revenues (note 13e and 13h)	138,631	69,675	62,328
Voyage charter revenues	8,040	4,415	238
Interest income from investment in term loans (note 5)	9,118	7,677	11,499
<b>Total revenues</b>	<b>235,593</b>	<b>170,087</b>	<b>197,429</b>
Voyage expenses (note 13e)	(9,984)	(8,337)	(4,618)
Vessel operating expenses (notes 13e and 13f)	(93,022)	(91,667)	(96,160)
Time-charter hire expense (note 15)	(22,160)	(6,174)	(3,950)
Depreciation and amortization	(50,152)	(47,833)	(72,365)
General and administrative (notes 13e and 13g)	(11,959)	(12,594)	(7,985)
Gain (loss) on sale of vessels (note 18)	9,955	(71)	
Vessel impairment (note 18)			(352,546)
<b>Income (loss) from operations</b>	<b>58,271</b>	<b>3,411</b>	<b>(340,195)</b>
Interest expense (note 13e)	(8,741)	(10,023)	(20,009)
Interest income	287	158	50
Realized and unrealized loss on derivative instruments (note 9)	(1,712)	(1,524)	(7,963)
Equity income (loss) (note 6)	5,228	854	(1)
Other income (expenses) (note 14)	3,809	(1,014)	(2,063)
<b>Net income (loss)</b>	<b>57,142</b>	<b>(8,138)</b>	<b>(370,181)</b>
<b>Per common share amounts</b>			
Basic earnings (loss) per share (note 17)	\$ 0.67	\$ (0.10)	\$ (4.54)
Diluted earnings (loss) per share (note 17)	\$ 0.66	\$ (0.10)	\$ (4.54)
Cash dividends declared	\$ 0.12	\$ 0.12	\$ 0.40
<b>Weighted-average number of Class A and Class B common shares outstanding</b>			
Basic (note 17)	85,882,685	83,591,030	79,539,605
Diluted (note 17)	86,247,137	83,591,030	79,539,605
Related party transactions (note 13)			

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





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## TEEKAY TANKERS LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)

	As at December 31, 2014 \$	As at December 31, 2013 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	162,797	25,646
Pool receivables from affiliates, net ( <i>note 13h</i> )	35,254	10,765
Accounts receivable	4,178	4,247
Due from affiliates ( <i>note 13f</i> )	42,502	27,991
Prepaid expenses	8,883	10,361
Investment in term loans ( <i>note 5</i> )		136,061
<b>Total current assets</b>	<b>253,614</b>	<b>215,071</b>
Vessels and equipment		
At cost, less accumulated depreciation of \$301.6 million (2013 - \$251.4 million) ( <i>note 18</i> )	828,291	859,308
Investment in and advances to equity accounted investments ( <i>note 6</i> )	73,397	18,196
Derivative asset ( <i>note 9</i> )	4,657	
Other non-current assets ( <i>note 18</i> )	5,400	4,954
<b>Total assets</b>	<b>1,165,359</b>	<b>1,097,529</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable	1,899	2,251
Accrued liabilities ( <i>notes 7 and 13f</i> )	17,565	21,069
Current portion of long-term debt ( <i>note 8</i> )	41,959	25,246
Current portion of derivative liabilities ( <i>note 9</i> )	7,263	7,344
Deferred revenue	637	2,961
Due to affiliates ( <i>note 13f</i> )	10,395	11,323
<b>Total current liabilities</b>	<b>79,718</b>	<b>70,194</b>
Long-term debt ( <i>note 8</i> )	614,104	719,388
Derivative liabilities ( <i>note 9</i> )	10,962	17,924
Other long-term liabilities ( <i>note 10</i> )	4,852	5,351
<b>Total liabilities</b>	<b>709,636</b>	<b>812,857</b>

Commitments and contingencies (*notes 6, 9, 15 and 18*)**Equity**

Common stock and additional paid-in capital (300 million shares authorized, 95.3 million Class A and 16.7 million class B shares issued and outstanding as of December 31, 2014 (2013 - 71.1 million Class A and 12.5 million Class B shares issued and outstanding) (*notes 3 and 12*)

	802,650	673,217
Accumulated deficit	(346,927)	(388,545)
<b>Total equity</b>	<b>455,723</b>	<b>284,672</b>
<b>Total liabilities and equity</b>	<b>1,165,359</b>	<b>1,097,529</b>

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

**Table of Contents****TEEKAY TANKERS LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (note 1)**

(in thousands of U.S. dollars)

	Year Ended December 31, 2014 \$	Year Ended December 31, 2013 \$	Year Ended December 31, 2012 \$
Cash and cash equivalents provided by (used for)			
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	57,142	(8,138)	(370,181)
Non-cash items:			
Depreciation and amortization	50,152	47,833	72,365
Unrealized gain on derivative instruments	(8,281)	(8,363)	(1,580)
Equity (income) loss	(5,228)	(854)	1
(Gain) loss on sale of vessels (note 18)	(9,955)	71	
Vessel impairment (note 18)			352,546
Other	(1,476)	1,484	1,188
Change in operating assets and liabilities (note 16)	(51,679)	(6,586)	(19,794)
Expenditures for dry docking	(17,072)	(19,245)	(7,003)
<b>Net operating cash flow</b>	<b>13,603</b>	<b>6,202</b>	<b>27,542</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from long-term debt	98,796	59,179	32,226
Repayments of long-term debt	(20,367)	(25,246)	(13,522)
Prepayment of long-term debt	(167,000)	(25,000)	(60,000)
Proceeds from issuance of common stock, net of share issuance costs (note 3)	111,190		65,771
Equity contribution from Teekay Corporation (note 13c)	1,267		
Cash dividends paid	(10,165)	(10,030)	(32,231)
Proceeds from long-term debt of Dropdown Predecessor (note 1)			2,312
Repayment from long-term debt of Dropdown Predecessor (note 1)			(10,372)
Prepayment of long-term debts of Dropdown Predecessor (note 1)			(15,000)
Acquisition of 13 vessels from Teekay Corporation (note 1)			(9,509)
Contribution of capital from Teekay Corporation to Dropdown Predecessor (note 1)			9,507
Net advances from affiliates (note 1)			16,913
<b>Net financing cash flow</b>	<b>13,721</b>	<b>(1,097)</b>	<b>(13,905)</b>
<b>INVESTING ACTIVITIES</b>			

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Proceeds from the sale of vessels and equipment ( <i>note 18</i> )	154,000	9,114	
Expenditures for vessels and equipment	(2,063)	(1,904)	(2,518)
Investment in and advances from (to) High-Q joint venture ( <i>note 6</i> )	1,950	(3,890)	(3,344)
Investment in and advances to TTOL ( <i>note 6</i> )	(6,494)		
Investment in and advances to TIL ( <i>note 6</i> )	(35,045)		
Deposit for vessel purchase ( <i>note 18</i> )	(3,700)		
Investment in term loans ( <i>note 5</i> )	1,179	(9,120)	
<b>Net investing cash flow</b>	<b>109,827</b>	<b>(5,800)</b>	<b>(5,862)</b>
Increase (decrease) in cash and cash equivalents	137,151	(695)	7,775
Cash and cash equivalents, beginning of the year	25,646	26,341	18,566
<b>Cash and cash equivalents, end of the year</b>	<b>162,797</b>	<b>25,646</b>	<b>26,341</b>

Supplemental cash flow information (*note 16*)

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

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**TEEKAY TANKERS LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(in thousands of U.S. dollars, except share amounts)

	<b>STOCKHOLDERS EQUITY</b>					
	<b>Common Stock and Paid-in Capital</b>					
	<b>Dropdown Predecessor Equity</b>	<b>Thousands of Common Shares</b>	<b>Class A</b>	<b>Class B</b>	<b>Accumulated Deficit</b>	<b>Total</b>
	\$	#	\$	\$	\$	\$
	<i>(note 1)</i>					
<b>Balance as at December 31, 2011</b>	88,793	61,877	588,316	125	(99,070)	578,164
Net loss	(9,163)				(361,018)	(370,181)
Net change in parent's equity from Dropdown Predecessor <i>(note 1)</i>	70,404					70,404
Proceeds from issuance of Class A common shares, net of offering costs of \$3.3 million <i>(note 3)</i>		17,250	65,771			65,771
Acquisition of interest in 13 vessels from Teekay Corporation <i>(note 1)</i>	(150,034)	4,464	18,348		121,942	(9,744)
Dividends declared					(32,231)	(32,231)
<b>Balance as at December 31, 2012</b>		83,591	672,435	125	(370,377)	302,183
Net loss					(8,138)	(8,138)
Dividends declared					(10,030)	(10,030)
Equity-based compensation <i>(note 12)</i>			657			657
<b>Balance as at December 31, 2013</b>		83,591	673,092	125	(388,545)	284,672
Net income					57,142	57,142
Proceeds from issuance of Class A common shares, net of offering costs of \$4.8 million <i>(note 3)</i>		24,167	111,190			111,190
Value assigned to share issuance to Teekay Corporation for purchase of TTOL <i>(note 3)</i>		4,221		17,010		17,010
Purchase of TTOL from Teekay Corporation <i>(note 6)</i>					(6,626)	(6,626)
					1,267	1,267

Equity contribution form Teekay Corporation (note 13c)					
Dividends declared				(10,165)	(10,165)
Equity-based compensation (note 12)	85	1,233			1,233
<b>Balance as of December 31, 2014</b>	112,064	785,515	17,135	(346,927)	455,723

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

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**TEEKAY TANKERS LTD. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)**

**1. Summary of Significant Accounting Policies**

**Nature of operations**

The Company (as defined below) is engaged in the international marine transportation of crude oil and refined petroleum products through the operation of its oil and product tankers. The Company's revenues are earned in international markets.

**Basis of presentation and consolidation principles**

During October 2007, Teekay Corporation (*Teekay*) formed Teekay Tankers Ltd., a Marshall Islands corporation (together with its wholly-owned subsidiaries and the Dropdown Predecessor, as described below, collectively the *Company*), to acquire from Teekay a fleet of nine double-hull Aframax-class oil tankers in connection with the Company's initial public offering (or *IPO*). As of December 31, 2014, the Company's fleet included a total of 40 vessels, of which 12 were chartered-in and one was 50%-owned through the High-Q joint venture.

The consolidated financial statements reflect the financial position, results of operations and cash flows of Teekay Tankers Ltd., its wholly-owned subsidiaries, equity accounted investments and the Dropdown Predecessor. The consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (*GAAP*) and all significant intercompany balances and transactions have been eliminated upon consolidation.

**Dropdown Predecessor**

The Company accounts for the acquisition of interests in vessels from Teekay as a transfer of a business between entities under common control. The method of accounting for such transfers is similar to the pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. The proceeds paid by the Company over or under Teekay's historical cost in the acquired vessels are accounted for as a return of capital to or contribution of capital from Teekay. In addition, transfers of net assets between entities under common control are accounted for as if the transfer occurred from the date that the Company and the acquired vessels were both under the common control of Teekay and had begun operations. As a result, the Company's financial statements prior to the date the interests in these vessels were actually acquired by the Company are retroactively adjusted to reflect these vessels and their related operations and cash flows (referred to herein, collectively, as the *Dropdown Predecessor*) during the periods under common control of Teekay.

During June 2012, the Company acquired from Teekay seven conventional oil tankers and six product tankers and related time-charter contracts, debt facilities and an interest rate swap, for an aggregate price of approximately \$454.2 million, including the assumption of outstanding debt of approximately \$428.1 million (or the *2012 Acquired Business*). Ten of the vessels were acquired on June 15, 2012 and the remaining three were acquired on June 26, 2012. As consideration for this acquisition, the Company issued to Teekay 4.5 million Class A common shares and made a



cash payment of \$1.1 million to Teekay. The 4.5 million Class A common shares had an approximate value of \$25.0 million, or \$5.60 per share, when the purchase price was agreed to between the parties and a value of \$18.3 million, or \$4.11 per share, on the acquisition closing date. The purchase price, for accounting purposes, is based upon the value of the Class A common shares on the acquisition closing date. Consequently, common stock and additional paid in capital and accumulated deficit are both \$6.7 million lower than if the value of the shares had remained unchanged from when the purchase price was agreed to between the parties. In addition, the Company reimbursed Teekay for \$8.4 million of working capital it assumed from Teekay in connection with the 2012 Acquired Business. Teekay has granted the Company a right of first refusal on certain conventional tanker opportunities Teekay may develop prior to June 15, 2015. Teekay prepaid \$106.9 million of long term debt of the 2012 Acquired Business on the date of acquisition. The acquisition of the 2012 Acquired Business was accounted for as a reorganization between entities under common control. As a result, the Company's consolidated statements of loss, cash flows and changes in equity for the year ended December 31, 2012 reflect the 2012 Acquired Business as if the Company had acquired the 2012 Acquired Business when the 13 vessels began their respective operations under the ownership of Teekay. All 13 vessels began operations prior to the periods covered by these consolidated financial statements and, consequently, are reflected in all periods presented.

The effect of adjusting the Company's financial statements to account for these common control exchanges decreased the Company's net income for the year ended December 31, 2012 by \$9.2 million. The adjustments for the Dropdown Predecessor increased the Company's revenues for the year ended December 31, 2012 by \$42.2 million.

In the preparation of these consolidated financial statements, general and administrative expenses, cost of ship management services and interest expense of the Dropdown Predecessor were not identifiable as relating solely to the each specific vessel. General and administrative 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 Dropdown Predecessor's proportionate share of Teekay's total ship-operating (calendar) days for the period presented. During the year ended December 31, 2012, \$2.6 million of ship management services costs were attributable to the Dropdown Predecessor. In addition, the Dropdown Predecessor includes debt of Teekay which was recorded on a pushed-down basis in the amount of \$108.7 million as at December 31, 2012. This debt was assumed by the Company concurrently with the dropdown transaction. Interest expense includes the allocation of interest to the Dropdown Predecessor from Teekay based upon the weighted-average outstanding balance of the push-down debt and the weighted-average interest rate outstanding on Teekay's loan facilities that were used to finance these loans. During the year ended December 31, 2012, \$11.7 million of interest expense was attributable to the Dropdown Predecessor. Management believes these allocations reasonably present the interest expense and the general and administrative expenses of the Dropdown Predecessor.

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**TEEKAY TANKERS LTD. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)**

**Use of estimates**

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. In addition, estimates have been made when allocating expenses from Teekay to the Dropdown Predecessor and such estimates may not be reflective of what actual results would have been if the Dropdown Predecessor had operated independently.

**Currency translation**

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

**Operating revenues and expenses**

The Company recognizes revenues from time charters daily over the term of the charter as the applicable vessel operates under the charter. The Company does not recognize revenues during days that the vessel is off hire. When the time charter contains a profit-sharing agreement, the Company recognizes the profit-sharing or contingent revenues when the contingency is resolved. All revenues from voyage charters are recognized on a proportionate performance method. The Company uses a discharge-to-discharge basis in determining proportionate performance for all spot voyages. The Company does not begin recognizing revenue until a charter has been agreed to by the customer and the Company, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. The consolidated balance sheets reflect the deferred portion of revenues and expenses, which will be earned in subsequent periods.

Voyage expenses are all expenses unique to a particular voyage, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. The Company, as shipowner, pays voyage expenses under voyage charters, its customers pay voyage expenses under time charters. Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. The Company pays vessel operating expenses under both voyage and time charters and for vessels which earn net pool revenue, as described below. Voyage expenses and vessel operating expenses are recognized when incurred.

Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. The agreed formula used to allocate net pool revenues varies between pools; however, the formula generally allocates revenues to pool participants on the basis of the number of days a vessel operates in the pool with weighting adjustments made to reflect vessels' differing capacities and performance capabilities. The same revenue and expense

recognition principles stated above are applied in determining the net pool revenues of the pool. The pools are responsible for paying voyage expenses and distribute net pool revenues to the participants. The Company accounts for the net allocation from the pool as revenues and amounts due from the pool are included in pool receivables from affiliates, net.

### **Share-based compensation**

The Company grants stock options and restricted stock units as incentive-based compensation to certain employees of Teekay who support the operations of the Company. The Company measures the cost of such awards using the grant date fair value of the award and recognizes that cost, net of estimated forfeitures, over the requisite service period, which generally equals the vesting period. For stock-based compensation awards subject to graded vesting, the Company calculates the value for the award as if it is a single award with one expected life and amortizes the calculated expense for the entire award on a straight-line basis over the vesting period of the award. The Company also grants common stock and fully vested stock options as incentive-based compensation to non-management directors, which are expensed immediately (see note 12).

### **Cash and cash equivalents**

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

### **Accounts receivable, allowance for doubtful accounts, and investment in term loans and other loan receivables**

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience and customer economic data. The Company reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged off against the allowance when the Company believes that the receivable will not be recovered. There are no significant amounts recorded as allowance for doubtful accounts as at December 31, 2014, 2013 and 2012.

The Company's investment in term loans and advances to equity accounted investments are recorded at cost. The premium paid over the outstanding principal amount was amortized to interest income over the term of the loan using the effective interest rate method. The Company analyzes its loans for collectability during each reporting period. A loan provision is recorded, based on current information and events, if it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors the Company considers in determining that a loan provision is required, among other things, an assessment of the financial condition of the debtor, payment history of the debtor, general economic conditions, the credit rating of the debtor (when available), any information provided by the debtor regarding their ability to repay the loan, and the fair value of the underlying collateral. When a loan provision is recorded, the Company measures the amount of the provision based on the present value of expected future cash flows discounted at the loan's effective interest rate.

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and recognizes the resulting provision in the statement of income (loss). The carrying value of the loans is adjusted each subsequent period to reflect any changes in the present value of the expected future cash flows, which may result in increases or decreases to the loan provision.

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

Class of Financing Receivable	Credit Quality Indicator	Grade	December 31, 2014	
			December 31, 2014	December 31, 2013
			\$	\$
Investment in term loans and interest receivable	Collateral	Non-performing <sup>(1)</sup>		136,061
Advances to equity accounted investments	Other internal metrics	Performing	14,980	16,930
			14,980	152,991

- (1) The borrowers under the term loans had been in default on their interest payment obligations since the first quarter of 2013, and subsequently, in default of the repayment of the loan principal from the loan maturity date in July 2013. On March 21, 2014, the Company took ownership of the vessels held as collateral in satisfaction of the loans and accrued interest (see note 5).

**Equity accounted investments**

The Company's has investments in the High-Q joint venture, Teekay Tanker Operations Ltd. (or *TTOL*) and Tanker Investments Ltd. (or *TIL*) all of which are accounted for using the equity method of accounting. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and the Company's proportionate share of earnings or losses and distributions. The Company evaluates its equity accounted investment for impairment when events or circumstances indicate that the carrying value of such investment may have experienced an other-than-temporary decline in value below its carrying value. If the estimated fair value is less than the carrying value, the carrying value is written down to its estimated fair value and the resulting impairment is recorded in the Company's statement of income. The Company's maximum exposure to loss is the amount it has invested in its equity accounted investments.

**Vessels and equipment**

All pre-delivery costs incurred during the construction of newbuildings, including interest, supervision and technical costs, are capitalized. The acquisition cost and all costs incurred to restore used vessels purchased by the Company to

the standard required to properly service the Company's customers are capitalized.

Depreciation is calculated on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. Depreciation is calculated using an estimated useful life of 25 years, or a shorter period if regulations prevent the Company from operating the vessels for 25 years. Depreciation of vessels and equipment (including depreciation attributable to the Dropdown Predecessor and excluding amortization of dry-docking costs) for the years ended December 31, 2014, 2013 and 2012 totaled \$39.4 million, \$39.2 million, and \$63.4 million, respectively.

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

Generally, the Company dry docks each vessel every two and a half to five years. The Company capitalizes a substantial portion of the costs incurred during dry docking and amortizes those costs on a straight-line basis over its estimated useful life, which typically is from the completion of a dry docking or intermediate survey to the estimated completion of the next dry docking. The Company includes in capitalized dry docking those costs incurred as part of the dry dock to meet classification and regulatory requirements. The Company expenses costs related to routine repairs and maintenance performed during dry docking that do not improve or extend the useful lives of the assets. When significant dry-docking expenditures occur prior to the expiration of the original amortization period, the remaining unamortized balance of the original dry-docking cost is expensed in the month of the subsequent dry docking.

The following table summarizes the change in the Company's capitalized dry docking costs, from January 1, 2012 to December 31, 2014:

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at the beginning of the year	29,269	18,672	20,945
Cost incurred for dry docking	17,072	19,245	7,003
Dry-dock amortization	(10,832)	(8,648)	(8,959)
Vessel sales/held for sale ( <i>note 18</i> )			(317)
<b>Balance at the end of the year</b>	<b>35,509</b>	<b>29,269</b>	<b>18,672</b>

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. Estimated fair value is determined based on discounted cash flows or appraised values. In cases where an active second hand sale and purchase market does not exist, the Company

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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 used to estimate the amount the Company would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Company.

**Debt issuance costs**

Debt issuance costs, including fees, commissions and legal expenses, are capitalized and presented as other non-current assets. Debt issuance costs of revolving credit facilities and term loans are amortized using the effective interest rate method over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense.

**Income taxes**

The Company recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Company's financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Excluding freight taxes, the Company incurred no income taxes for the years ended December 31, 2014, 2013 and 2012. The Company believes that it and its subsidiaries are not subject to taxation under the laws of the Republic of The Marshall Islands and qualify for the Section 883 exemption under U.S. federal income tax purposes.

**Ship management fees**

In order to more closely align the Company's presentation to that of many of its peers, the cost of ship management activities of \$5.6 million for year ended December 31, 2014 has been presented in vessel operating expenses. Prior to 2013, the Company included these amounts in general and administrative expenses. All such costs incurred in comparative periods have been reclassified from general and administrative expenses to vessel operating expenses to conform to the presentation adopted in the current period. The amounts reclassified for the years ended December 31, 2013 and 2012 were \$5.6 million and \$6.9 million, respectively (see note 13e).

**Derivative instruments**

All derivative instruments are initially recorded at fair value as either assets or liabilities in the accompanying consolidated balance sheets and subsequently remeasured to fair value each quarter, regardless of the purpose or intent for holding the derivative. The method of recognizing the resulting gains or losses are dependent on whether the derivative contracts are designed to hedge a specific risk and whether the contracts qualify for hedge accounting. The Company does not apply hedge accounting to its derivative instruments, except for certain types of interest rate swaps that it may enter into in the future.

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

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

For derivative financial instruments that are not designated or that do not qualify as hedges under Financial Accounting Standards Board (or *FASB*) *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 Company's non-designated derivatives are recorded in realized and unrealized loss on derivative instruments in the Company's consolidated statements of income (loss).

### **Earnings (loss) per share**

Earnings (loss) per share is determined by dividing (a) net income (loss) of the Company after (deducting) adding the amount of net income (loss) attributable to the Dropdown Predecessor by (b) the weighted-average number of shares outstanding during the applicable period. The calculation of weighted-average number of shares includes the total Class A and total Class B shares outstanding during the applicable period. The computation of diluted earnings per share assumes the exercise of all dilutive stock options and restricted stock units using the treasury stock method. The computation of diluted loss per share does not assume such exercises.

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**2. Accounting Pronouncements Not Yet Adopted**

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 companies to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires companies 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 when each performance obligation is satisfied. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016 and shall be applied at the Company's option retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. The Company is evaluating the effect of adopting this new accounting guidance.

In April 2014, FASB issued Accounting Standards Update 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (or ASU 2014-08) which raises the threshold for disposals to qualify as discontinued operations. A discontinued operation is defined now as: (i) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results; or (ii) an acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. ASU 2014-08 is effective for fiscal years beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in the financial statements previously issued or available for issuance. The impact, if any, of adopting ASU 2014-08 on the Company's financial statements will depend on the occurrence and nature of disposals that occur after ASU 2014-08 is adopted.

**3. Public Offerings and Private Placements**

The following table summarizes the issuances of common shares over the three years ending December 31, 2014:

<b>Date</b>	<b>Number of Common Shares Issued</b>	<b>Offering Price (Per Share)</b>	<b>Gross Proceeds</b>	<b>Net Proceeds</b>	<b>Teekay's Ownership After the Offering</b>	<b>Use of Proceeds</b>
February 2012	17,250,000	\$ 4.00	69,000	65,771	20.4%	Prepayment of revolving credit facilities
June 2012	4,464,286 <sup>(1)</sup>	\$ 4.11	18,348	18,348	24.6%	



August 2014	4,220,945 <sup>(2)</sup>	\$ 4.03	17,010	17,010	28.7%	Acquisition of conventional tankers
December 2014	24,166,666 <sup>(3)</sup>	\$ 4.80	116,000	111,190	26.2%	Acquisition of interest in TTOL
						Acquisition of conventional tankers

- (1) Represents Class A common shares issued to Teekay as partial consideration for the Company's acquisition of the 2012 Acquired Business, which shares had an approximate value of \$25.0 million, or \$5.60 per share when the purchase price was agreed between the parties.
- (2) Represents Class B common shares issued to Teekay as partial consideration for the Company's acquisition of the 50% interest in TTOL, which shares had an approximate value of \$15.6 million, or \$3.70 per share when the purchase price was agreed between the parties.
- (3) Represents 20.0 million Class A common shares issued to the public and 4.2 million common shares issued to Teekay in a concurrent private placement. The proceeds from the issuance will be used to acquire modern second hand tankers (see note 18) and for general corporate purposes. The portion of the Company's voting power held by Teekay at December 31, 2014 was 53.8%. Please refer to Item 7 Major Shareholders and Related Parties. Subsequent to December 31, 2014, the Company issued an additional 3 million shares of Class A common stock upon the exercise by the underwriters of an option to acquire additional shares from the December 2014 public offering (see note 20b).

#### 4. Business Operations

##### Significant Customers

The following table presents consolidated revenues and percentage of consolidated revenues for customers that accounted for more than 10% of the Company's consolidated revenues for its sole operating segment during the periods presented. Revenues from customers attributable to the Dropdown Predecessor are included in the table.

	Year Ended December 31,		
	2014	2013	2012
Statoil ASA	\$ 32.4 million	\$ 33.7 million	\$ 27.3 million
ConocoPhillips	(1)	\$ 18.1 million	\$ 31.8 million

- (1) Less than 10% of the consolidated revenues

Table of Contents**TEEKAY TANKERS LTD. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)****Concentration of Credit Risk**

There is a concentration of credit risk with respect to the total amounts due from affiliates and pool receivables from affiliates with these amounts being due from affiliates of Teekay as at December 31, 2014 (see note 13h). The Company also relies on Teekay Chartering Ltd., a wholly-owned subsidiary of Teekay, to actively manage and administer all voyage-related functions for vessels on time charter contracts and for vessels trading in the Teekay Aframax Pool (a vessel pooling arrangement of Aframax tankers), the Teekay Classic Aframax Pool (a vessel pooling arrangement for Aframax tankers older than 15 years), the Gemini Suezmax Pool (a vessel pooling arrangement of Suezmax tankers), and the Taurus Tankers LR2 Pool (a vessel pooling arrangement of product tankers).

**5. Investment in Term Loans**

In July 2010, the Company invested in two term loans for a total cost of \$115.6 million (or the Loans) which were scheduled to mature in July 2013. The Loans were secured by first priority mortgages registered on two 2010-built Very Large Crude Carriers (or VLCCs). The Loans had an annual interest rate of 9% per annum and included a repayment premium feature that was to provide a total investment yield of approximately 10% per annum.

The borrowers under the Loans had been in default on their interest payment obligations since the first quarter of 2013, and subsequently, in default of the repayment of the loan principal from the loan maturity date in July 2013. On March 21, 2014, the Company took ownership of the VLCCs and the Loans were concurrently discharged. The VLCCs had an estimated fair value of \$144 million on that date, which approximated all amounts owing under the Loans, including \$9.1 million of accrued interest. The transfer of ownership of the VLCCs and concurrent discharging of the Loans has been treated as a non-cash transaction in the Company's consolidated statement of cash flows.

In May, the Company sold the two wholly-owned subsidiaries, each of which owns one VLCC, to TIL (see note 18).

**6. Investments in and advances to Equity Accounted Investments**

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
High-Q Joint Venture (High-Q)	18,948	18,196
Tanker Investments Ltd. (TIL)	36,915	
Teekay Tanker Operations Ltd. (TTOL)	17,534	
Total	73,397	18,196

- a. The Company has a joint venture arrangement with Wah Kwong Maritime Transport Holdings Limited (or *Wah Kwong*), whereby the Company has a 50% economic interest in the High-Q joint venture, which is jointly controlled by the Company and Wah Kwong. The High-Q joint venture owns one VLCC, which is trading on a fixed time charter-out contract expiring in 2018. Under the contract, the vessel earns a fixed daily rate and an additional amount if the daily rate of any sub-charter earned exceeds a certain threshold.

In March 2012, the joint venture entered into a \$68.6 million loan with a financial institution. As at December 31, 2014, the loan had an outstanding balance of \$60.0 million (December 31, 2013 - \$64.7 million). The loan is secured by a first-priority mortgage on the VLCC owned by the joint venture and 50% of the outstanding loan balance is guaranteed by the Company. The joint venture has an interest rate swap agreement with a notional amount of \$60.0 million that expires in June 2018, 50% of which is guaranteed by the Company. The interest rate swap exchanges a receipt of floating interest based on 3-months LIBOR for a payment of a fixed rate of 1.47% every three months.

- b. In January 2014, the Company and Teekay formed TIL, which seeks to opportunistically acquire, operate and sell modern second-hand tankers to benefit from an expected recovery of the tanker market. The Company purchased 2.5 million shares of common stock for \$25.0 million and received a stock purchase warrant entitling it to purchase up to 750,000 additional shares of common stock of TIL (see note 9). The stock purchase warrant is a derivative instrument, which had a value of \$3.4 million on issuance which is reflected in the other income (expenses) in the Company's consolidated statements of income (loss) for the year ended December 31, 2014. The Company also received one preferred share, which entitles the Company to elect one Board member of TIL. The preferred share does not give the Company a right to any dividends or distributions of TIL. The Company accounts for its investment in TIL using the equity method. In October 2014, the Company purchased an additional 0.9 million common shares of TIL on the open market. The common shares were acquired at a price of NOK 69 per share, or a purchase price of \$10.0 million.

In May 2014, the Company sold two wholly-owned subsidiaries, each of which owns one VLCC, to TIL (see note 18).

- c. On August 1, 2014, the Company purchased from Teekay a 50% interest in TTOL, which owns conventional tanker commercial management and technical management operations, including the direct ownership in three commercially managed tanker pools, for an aggregate price of approximately \$23.5 million, including net working capital. Teekay retained the remaining 50% interest in TTOL.

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As consideration for this acquisition, the Company issued to Teekay 4.2 million Class B common shares. The 4.2 million Class B common shares had an approximate value of \$15.6 million, or \$3.70 per share, when the purchase price was agreed to between the parties and a value of \$17.0 million, or \$4.03 per share, on the acquisition closing date. The purchase price, for accounting purposes, is based upon the value of the Class B common shares on the acquisition closing date. In addition, the Company reimbursed Teekay for \$6.5 million of working capital it assumed from Teekay in connection with the purchase. The book value of the assets acquired, including working capital, was \$16.9 million on the date of acquisition. The excess of the purchase price over the Company's proportionate interest in the book value of the net assets acquired, which amounted to \$6.6 million, is accounted for as an equity distribution to Teekay. The portion of the purchase price paid with the 4.2 million of Class B common shares is reflected in the statement of cash flow as a non-cash transaction. The Company accounts for its ownership interest in TTOL using the equity method.

A condensed summary of the Company's financial information for equity accounted investments (9.29% to 50% owned) shown on a 100% basis are as follows:

	<b>As at December 31,</b>		
	<b>2014</b>	<b>2013</b>	
	\$	\$	
Cash and restricted cash	97,758	2,897	
Other assets- current	66,473	270	
Vessels and equipment	715,360	99,526	
Other assets - non-current	26,446	1,001	
Current portion of long-term debt	33,992	5,750	
Other liabilities - current	47,275	1,387	
Long-term debt	359,980	59,975	
Other liabilities - non-current	31,787	35,000	

  

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	\$	\$	\$
Revenues	94,244	7,325	
Income from vessel operations	16,460	3,256	(3)
Realized and unrealized loss on derivative instruments	(831)		
Net income (loss)	3,598	1,686	(3)

For the year ended December 31, 2014, the Company recorded equity income (loss) of \$5.2 million (2013 - \$0.9 million and 2012 - \$(1) thousand). The income or loss was primarily comprised of the Company's share of net income (loss) from High-Q joint venture, TIL, and TTOL.

**7. Accrued Liabilities**

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Voyage and vessel	7,358	10,692
Corporate accruals	366	528
Interest	3,947	3,999
Payroll and benefits to related parties	5,894	5,850
<b>Total</b>	<b>17,565</b>	<b>21,069</b>

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**8. Long-Term Debt**

	Year Ended December 31,	
	2014	2013
	\$	\$
Revolving Credit Facilities due through 2018	508,593	580,593
Term Loans due through 2021	147,470	164,041
	656,063	744,634
Current portion	(41,959)	(25,246)
<b>Total</b>	<b>614,104</b>	<b>719,388</b>

As at December 31, 2014, the Company had three revolving credit facilities (or the *Revolvers*), which, as at such date provided for aggregate borrowings of up to \$634.8 million, of which \$126.2 million was undrawn (December 31, 2013 - \$728.8 million, of which \$148.2 million was undrawn). Interest payments are based on LIBOR plus margins, which at December 31, 2014, ranged between 0.45% and 0.60% (December 31, 2013: 0.45% and 0.60%). The total amount available under the Revolvers reduces by \$120.9 million (2015), \$89.1 million (2016), \$395.9 million (2017) and \$28.9 million (2018). As at December 31, 2014, the Revolvers were collateralized by 21 of the Company's vessels, together with other related security. One of the Revolvers requires that the Company's applicable subsidiary maintain a minimum hull coverage ratio of 105% of the total outstanding balance for the facility period. As at December 31, 2014, this ratio was 153%. The vessel value used in this ratio is an appraised value prepared by the Company based on second-hand sale and purchase market data. A decline in the tanker market could negatively affect the ratio. In addition, one of the Revolvers requires the Company and certain of its subsidiaries to maintain a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) of \$35.0 million and at least 5.0% of the Company's total debt. The remaining two Revolvers are guaranteed by Teekay and contain covenants that require Teekay to maintain the greater of free cash (cash and cash equivalents) of at least \$100.0 million and an aggregate of free cash and undrawn committed revolving credit lines with at least six months to maturity of at least 7.5% of Teekay's total consolidated debt which has recourse to Teekay. As at December 31, 2014, the Company and Teekay were in compliance with all their covenants in respect of the Revolvers.

As at December 31, 2014, the Company had three term loans outstanding, which totaled \$147.5 million (December 31, 2013 - \$164.0 million). Interest payments on the term loans are based on a combination of fixed and variable rates where fixed rates range from 4.06% to 4.90% and variable rates are based on LIBOR plus a margin. At December 31, 2014, the margins ranged from 0.30% to 1.0% (December 31, 2013 - 0.30% to 1.0%). The term loan repayments are made in quarterly or semi-annual payments and two of the term loans have balloon or bullet repayments due at maturity in 2019 and 2021. The term loans are collateralized by first-priority mortgages on six of the Company's vessels, together with certain other related security. Two of the term loans require that the Company's subsidiaries maintain minimum hull coverage ratios of 120% and 130%, respectively, of the total outstanding balance for the

facility period. As at December 31, 2014, the loan to value ratios ranged from 212% to 676%. The vessel values used in these ratios are appraised values prepared by the Company based on second-hand sale and purchase market data. A decline in the tanker market could negatively affect the ratios. The term loans are guaranteed by Teekay and contain covenants that require Teekay to maintain the greater of free cash (cash and cash equivalents) of at least \$100.0 million and an aggregate of free cash and undrawn committed revolving credit lines with at least six months to maturity of at least 7.5% of Teekay's total consolidated debt which has recourse to Teekay. As at December 31, 2014, the Company and Teekay were in compliance with all their covenants in respect of these term loans.

The Company and certain other subsidiaries of Teekay are borrowers under one term loan arrangement and one revolving credit facility. Under these arrangements, each of the borrowers is obligated on a joint and several basis. For accounting purposes, obligations resulting from long-term debt joint and several liability arrangements are measured at the sum of the amount the Company agreed to pay, on the basis of its arrangement with its co-obligor, and any additional amount the Company expects to pay on behalf of its co-obligor. As of December 31, 2014, the term loan arrangement had an outstanding balance of \$188.3 million, of which \$92.8 million was the Company's share. As of December 31, 2014, the revolving credit facility had an outstanding balance of \$89.3 million, of which \$35.0 million was the Company's share. The Company does not expect to pay any amount on behalf of its co-obligors. Teekay has agreed to indemnify the Company in respect of any losses and expenses arising from any breach by the co-obligors of the terms and conditions of the term loan or revolving credit facility.

The weighted-average effective interest rate on the Company's long-term debt as at December 31, 2014 was 1.1% (December 31, 2013 1.1%). This rate does not reflect the effect of the Company's interest rate swap agreements (see note 9).

The aggregate annual long-term principal repayments required to be made by the Company under the Revolvers and term loans subsequent to December 31, 2014 are \$42.0 million (2015), \$82.6 million (2016), \$415.3 million (2017), \$53.2 million (2018), \$23.2 million (2019) and \$39.8 million (thereafter).

## **9. Derivative Instruments**

The Company uses interest rate swaps in accordance with its overall risk management policies. The Company enters into interest rate swap agreements 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. The Company has not designated, for accounting purposes, its interest rate swaps as cash flow hedges of its U.S. Dollar denominated LIBOR borrowings.

Realized and unrealized gains or losses relating to the Company's interest rate swaps have been reported in realized and unrealized loss on non-designated derivative instruments in the consolidated statements of income (loss). During the year ended December 31, 2014, the Company recognized a realized loss of \$10.0 million and an unrealized gain of \$7.1 million relating to its interest rate swaps. During the year ended December 31, 2013, the Company recognized a realized loss of \$9.9 million and an unrealized gain of \$8.4 million relating to its interest rate swaps. During the year ended December 31, 2012, the Company recognized a realized loss of \$9.6 million and an unrealized gain of \$1.6 million relating to its interest rate swaps.

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The following summarizes the Company's interest rate swap positions as at December 31, 2014:

	Interest Rate Index	Principal Amount \$	Fair Value / Carrying Amount of Asset (Liability) \$	Remaining Term (years)	Fixed Interest Rate (%) <sup>(1)</sup>
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swap <sup>(1)</sup>	USD LIBOR 6M	200,000	(6,160)	1.8	2.61
U.S. Dollar-denominated interest rate swap <sup>(1)</sup>	USD LIBOR 3M	100,000	(12,065)	2.8	5.55

(1) Excludes the margin the Company pays on its variable-rate debt, which, as of December 31, 2014 ranged from 0.3% to 1.0%.

The Company is potentially exposed to credit loss in the event of non-performance by the counterparty to the interest rate swap agreements in the event that the fair value results in an asset being recorded. In order to minimize counterparty risk, the Company only enters into interest rate swap agreements with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time transactions are entered into.

The Company has a stock purchase warrant entitling it to purchase up to 750,000 shares of common stock of TIL at a fixed price of \$10 per share. Alternatively, if the shares of TIL's common stock trade on a National Stock Exchange or over-the-counter market denominated in Norwegian Kroner, the Company may also exercise the stock purchase warrant at 61.67 Norwegian Kroner (or NOK) per share. The stock purchase warrant expires on January 23, 2019. For purposes of vesting, the stock purchase warrant is divided into four equally sized tranches. If the shares of TIL's common stock trade on a National Stock Exchange or over-the-counter market denominated in Norwegian Kroner, each tranche will vest and become exercisable when and if the fair market value of a share of the TIL common stock equals or exceeds 77.08 NOK, 92.50 NOK, 107.91 NOK and 123.33 NOK, respectively, for such tranche for any ten consecutive trading days, subject to certain trading value requirements. As of December 31, 2014, the fair value of the stock purchase warrant was \$4.7 million, which is reflected in derivative assets on the Company's consolidated balance sheet. The stock purchase warrant had a value of \$3.4 million on issuance in January 2014 and such amount is reflected in the other income (expenses) in the Company's consolidated statements of income (loss). During the year ended December 31, 2014, the Company also recognized an unrealized gain of \$1.2 million relating to the changes in the value of the warrant. Unrealized gains and losses are reflected in realized and unrealized loss on derivative instruments in the Company's consolidated statements of income (loss).



**10. Other Long-Term Liabilities**

The Company recognizes freight tax expenses in other income (expenses) in its consolidated statements of income (loss). The Company does not presently anticipate its uncertain tax positions will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected.

The following is a roll-forward of the Company's freight tax expenses which are recorded in its consolidated balance sheets in other long-term liabilities, from January 1, 2012 to December 31, 2014:

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	\$	\$	\$
Balance at the beginning of the year	5,351	4,757	5,449
Freight tax (recovery) expense	(499)	594	(692)
Balance at the end of the year	4,852	5,351	4,757

**11. Fair Value Measurements**

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

**Cash and cash equivalents** The fair value of the Company's cash and cash equivalents approximates its carrying amounts reported in the consolidated balance sheets.

**Investment in term loans and interest receivable** The fair value of the Company's investment in term loans and interest receivable is estimated using a discounted cash flow analysis, based on current rates currently available for debt with similar terms and remaining maturities. In addition, the value of the collateral and an assessment of the credit worthiness of the borrower is taken into account when determining the fair value.

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

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**Derivative instruments** The fair value of the Company's interest rate swap agreements are the estimated amounts that the Company would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates, and if the swap is not collateralized, the current credit worthiness of either the Company or the swap counterparties. The estimated amount is the present value of future cash flows. The inputs used to determine the future cash flows include the fixed interest rate of the swaps and market interest rates. Given the current volatility in the credit markets, it is reasonably possible that the amounts recorded as derivative assets and liabilities could vary by material amounts in the near term.

During January 2014, the Company received a stock purchase warrant entitling it to purchase up to 750,000 shares of the common stock of TIL (see note 9). The estimated fair value of the stock purchase warrant was determined using a Monte-Carlo simulation and is based, in part, on the historical price of common shares of TIL, the risk-free interest rate, vesting conditions and the historical volatility of comparable companies. The estimated fair value of the stock purchase warrant as of December 31, 2014 is based on the historical volatility of comparable companies of 61.54%. A higher or lower volatility would result in a higher or lower fair value of this derivative asset.

Changes in fair value during the year ended December 31, 2014 for the TIL stock purchase warrant is as follows:

	<b>Year Ended December 31, 2014</b>
	<b>\$</b>
Fair value at the beginning of the period	
Fair value on issuance	3,420
Unrealized gain included in earnings	1,237
Fair value at the end of the period	4,657

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

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

	December 31, 2014		December 31, 2013		
	Fair Value Hierarchy Level	Carrying Amount Asset/ (Liability) \$	Fair Value Asset/ (Liability) \$	Carrying Amount Asset/ (Liability) \$	Fair Value Asset/ (Liability) \$
<b>Recurring:</b>					
Cash and cash equivalents	Level 1	162,797	162,797	25,646	25,646
<b>Derivative instruments</b>					
Interest rate swap agreements (note 9)	Level 2	(18,225)	(18,225)	(25,268)	(25,268)
Stock purchase warrant (note 9)	Level 3	4,657	4,657		
<b>Other:</b>					
Investment in term loans and interest receivable (note 5)	Level 3			136,061	134,857
Advances to equity accounted investments	Note (1)	14,980	Note (1)	16,930	Note (1)
Long-term debt, including current portion	Level 2	(656,063)	(617,761)	(744,634)	(679,910)

- (1) The advances to equity accounted investments together with the Company's investments in the equity accounted investments form the net aggregate carrying value of the Company's interests in the equity accounted investments in these consolidated financial statements. The fair values of the individual components of such aggregate interests are not determinable.

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**12. Capital Stock**

The authorized capital stock of Teekay Tankers Ltd. at December 31, 2014 and 2013, was 100,000,000 shares of preferred stock, with a par value of \$0.01 per share, 200,000,000 shares of Class A common stock, with a par value of \$0.01 per share, and 100,000,000 shares of Class B common stock, with a par value of \$0.01 per share. The shares of Class A common stock entitle the holder to one vote per share while the shares of Class B common stock entitle the holder to five votes per share, subject to a 49% aggregate Class B common stock voting power maximum. As at December 31, 2014, the Company had 95.3 million shares of Class A common stock (2013 71.1 million), 16.7 million shares of Class B common stock (2013 12.5 million) and no shares of Preferred Stock issued and outstanding (2013 nil). Subsequent to December 31, 2014, the Company issued an additional 3 million shares of Class A common stock (see note 20b).

Commencing in 2013, the Company adopted a fixed dividend policy. The annual dividend was set at an amount of \$0.12 per share, payable quarterly. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of Class A common stock and Class B common stock are entitled to share equally in any dividends that the Board of Directors declares from time to time out of funds legally available for dividends.

Upon the Company's liquidation, dissolution or winding-up, the holders of Class A common stock and Class B common stock shall be entitled to share equally in all assets remaining after the payment of any liabilities and the liquidation preferences on any outstanding preferred stock. Shares of the Company's Class A common stock are not convertible into any other shares of the Company's capital stock. Each share of Class B common stock is convertible at any time at the option of the holder thereof into one share of Class A common stock. Upon any transfer of shares of Class B common stock to a holder other than Teekay (or any of its affiliates or any successor to Teekay's business or to all or substantially all of its assets), such shares of Class B common stock shall automatically convert into Class A common stock upon such transfer. In addition, all shares of Class B common stock will automatically convert into shares of Class A common stock if the aggregate number of outstanding shares of Class A common stock and Class B common stock beneficially owned by Teekay and its affiliates falls below 15% of the aggregate number of outstanding shares of common stock. All such conversions will be effected on a one-for-one basis.

**Stock-based compensation**

As at December 31, 2014, the Company had reserved under its 2007 Long-Term Incentive Plan a total of 4,000,000 shares of Class A common stock for issuance pursuant to awards to be granted (2013 1,000,000 Class A common stock). For the year ended December 31, 2014, a total of 17,073 shares were granted and issued to the Company's non-management directors as part of their annual compensation. For the years ended December 31, 2013 and 2012, 142,157 shares and 82,573 shares of Class A common stock, respectively, have been granted and delivered to non-management Directors as part of the Directors' annual compensation. These Class A common shares were purchased on the open market rather than issuing shares from authorized capital. The compensation relating to the granting of such stock has been included in general and administrative expenses in the amounts of \$0.1 million, \$0.4 million and \$0.4 million for the years ended December 31, 2014, 2013, and 2012, respectively.

The Company also grants options and restricted stock units as incentive-based compensation under the Teekay Tankers Ltd. 2007 Long-Term Incentive Plan to certain non-management directors of the Company and to certain employees of Teekay subsidiaries that provide services to the Company. The Company measures the cost of such awards using the grant date fair value of the award and recognizes that cost, net of estimated forfeitures, over the requisite service period. The requisite service period consists of the period from the grant date of the award to the earlier of the date of vesting or the date the recipient becomes eligible for retirement. For stock-based compensation awards subject to graded vesting, the Company calculates the value for the award as if it was one single award with one expected life and amortizes the calculated expense for the entire award on a straight-line basis over the requisite service period. The compensation cost of the Company's stock-based compensation awards is reflected in general and administrative expenses in the Company's consolidated statements of income (loss).

In June 2014, the Company granted 0.1 million stock options with an exercise price of \$4.25 per share to an officer of the Company. These stock options have a ten-year term and vest equally over three years from the grant date. In March 2014, the Company granted 0.2 million stock options with an exercise price of \$4.10 per share to non-management directors of the Company. These stock options have a ten-year term and vest immediately.

The weighted-average grant-date fair value of stock options granted in June 2014 and March 2014 was \$1.38 per option and \$1.37 per option, respectively, estimated on the grant date using the Black-Scholes option pricing model. The following assumptions were used in computing the fair value of the stock options granted: expected volatility of 46.0% for the June 2014 grant and 47.7% for the March 2014 grant; expected life of five years; dividend yield of 2.8% for the June 2014 grant and 2.9% for the March 2014 grant; and risk-free interest rate of 1.6%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees of Teekay that receive stock options from Teekay. The expected volatility was based on historical volatility as calculated using historical data during the five years prior to the grant date.

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A summary of the Company's stock option information for the year ended December 31, 2014 is as follows:

	<b>December 31, 2014</b>	
	<b>Options (#)</b>	<b>Weighted-Average Exercise Price (\$)</b>
Outstanding - beginning of year		
Granted	263,175	4.16
Outstanding - end of year	263,175	4.16
Exercisable - end of year	152,346	4.10

A summary of the Company's non-vested stock option activity and related information for the year ended December 31, 2014 is as follows:

	<b>December 31, 2014</b>	
	<b>Options (#)</b>	<b>Weighted-Average Grant Date Fair Value (\$)</b>
Outstanding non-vested stock options - beginning of year		
Granted	110,829	4.25
Outstanding non-vested stock options - end of year	110,829	4.25

As of December 31, 2014, there was \$0.1 million of total unrecognized compensation cost related to non-vested stock options granted during the year. During the year ended December 31, 2014, the Company recognized \$0.2 million (2013 - \$nil, 2012 - \$nil) of expenses related to the stock options.

As at December 31, 2014, the intrinsic value of the outstanding in-the-money stock options was \$0.2 million and the intrinsic value of the exercisable stock options was \$0.1 million. As at December 31, 2014, the weighted-average remaining life of options vested and expected to vest was 9.2 years, weighted-average remaining life of the 152,346 exercisable stock options was 9.2 years and the weighted-average exercise price was \$4.10.

During 2014, the Company granted 0.6 million restricted stock units to an officer of the Company and to certain employees of Teekay subsidiaries that provide services to the Company, with an aggregate fair value of \$2.3 million. During 2013, the Company granted 0.4 million restricted stock units to certain employees of Teekay subsidiaries that provide services to the Company with an aggregate fair value of \$1.0 million. Each restricted stock unit is equal in value to one share of the Company's common shares plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date. Any portion of a restricted stock unit award that is not vested on the date of a recipient's termination of service is cancelled, unless their termination arises as a result of the recipient's retirement and, in that case, the restricted stock unit award will continue to vest in accordance with the vesting schedule. Upon vesting, the value of the restricted stock unit awards, net of withholding taxes, is paid to each recipient in the form of common shares.

For the year ended December 31, 2014, the Company recorded an expense of \$1.2 million (2013 - \$0.7 million, 2012 - \$nil) related to the restricted stock units. During the year ended December 31, 2014, 122,146 restricted stock units with a market value of \$0.6 million vested and that amount, net of withholding taxes, was paid to the grantees by issuing 68,322 shares of Class A common stock.

### **13. Related Party Transactions**

#### *Acquisitions and Dropdown Acquisitions*

- a. In August 2014, the Company purchased from Teekay a 50% ownership in TTOL, which owns conventional tanker commercial management and technical management operations, including the direct ownership in three commercially managed tanker pools, for an aggregate price of \$23.5 million, including \$6.5 million in net working capital (see *note 6c*).
- b. In January 2014, the Company and Teekay formed TIL. The Company purchase 2.5 million shares of common stock of TIL for \$25.0 million and received a stock purchase warrant. In October 2014, the Company purchased an additional 0.9 million common shares of TIL on the open market for a purchase price of \$10.0 million USD (see *note 6b*).

In May 2014, the Company sold two wholly-owned subsidiaries, each of which owns one VLCC, to TIL for the aggregate proceeds of \$154 million plus related working capital on closing of \$1.7 million (see *note 18*).

- c. In April 2010, when the Company purchased the *Kaveri Spirit* Suezmax tanker from Teekay, Teekay provided indemnification to the Company for the costs required to repair heating coils on the Suezmax tanker. During the first quarter of 2014, the repairs were performed to coincide with the scheduled drydocking of the vessel. The Company received a \$1.3 million indemnification payment from Teekay, which was treated as a reduction to the purchase price originally paid by the Company for the vessel.

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- d. During June 2012, the Company acquired from Teekay a fleet of 13 double-hull conventional oil and product tankers and related time-charter contracts, debt facilities and other assets and rights, for an aggregate purchase price of approximately \$454.2 million (see *note 1*).

*Management Fee Related and Other*

- e. Prior to 2015, the Company chartered two vessels to Teekay. In addition, Teekay and its wholly owned subsidiary and the Company's manager, Teekay Tankers Management Services Ltd. (*the Manager*), provide commercial, technical, strategic and administrative services to the Company pursuant to a long-term management agreement (the *Management Agreement*). In addition, certain of the Company's vessels participate in pooling arrangements that, with the exception of a Medium Range pool, are managed by entities owned in whole or in part by subsidiaries of Teekay (collectively the *Pool Managers*). Such related party transactions were as follows:

	Year Ended December 31,		
	2014	2013	2012
	\$	\$	\$
Time-charter revenues <sup>(i)</sup>	13,728	13,506	14,604
Pool management fees and commissions <sup>(ii)</sup>	(5,292)	(4,043)	(3,565)
Commercial management fees <sup>(iii)</sup>	(1,117)	(1,079)	(1,118)
Vessel operating expenses - crew training	(1,757)	(1,163)	(2,870)
Vessel operating expenses - technical management fee <sup>(iv)</sup>	(5,613)	(5,637)	(4,379)
Strategic and administrative service fees <sup>(v)</sup>	(8,676)	(10,783)	(5,492)
Vessel operating expenses - technical management fee - Dropdown Predecessor <sup>(note 1)</sup>			(2,566)
Interest expense - Dropdown Predecessor <sup>(note 1)</sup>			(11,660)

- (i) The Company had chartered-out the *Pinnacle Spirit* and *Summit Spirit* to Teekay under fixed-rate time-charter contracts, which expired in the fourth quarter of 2014.
- (ii) The Company's share of the Pool Managers' fees are reflected as a reduction to net pool revenues from affiliates on the Company's consolidated statements of income (loss).
- (iii) The Manager's commercial management fees for vessels on time-charter out contracts and spot-traded vessels not included in the pooling arrangement, which are reflected in voyage expenses on the Company's consolidated statements of income (loss).
- (iv) The cost of ship management services provided by the Manager has been presented as vessel operating expenses on the Company's consolidated statements of income (loss).
- (v)



The Manager's strategic and administrative service fees have been presented in general and administrative fees on the Company's consolidated statements of income (loss). The Company's executive officers are employees of Teekay or subsidiaries thereof, and their compensation (other than any awards under the Company's long-term incentive plan described in note 12) is set and paid by Teekay or such other subsidiaries. The Company reimburses Teekay for time spent by its executive officers on the Company's management matters through the strategic portion of the management fee.

- f. The Manager and other subsidiaries of Teekay collect revenues and remit payments for expenses incurred by the Company's vessels. Such amounts, which are presented in the consolidated balance sheets in due from affiliates or due to affiliates, are without interest or stated terms of repayment. In addition, \$5.9 million and \$5.8 million were payable to the Manager as at December 31, 2014 and December 31, 2013, respectively, for reimbursement of the Manager's crewing and manning costs to operate the Company's vessels and such amounts are included in accrued liabilities in the consolidated balance sheets. The amounts owing from the Pool Managers, which are reflected in the consolidated balance sheets as pool receivables from affiliates, are without interest and are repayable upon the terms contained within the applicable pool agreement. In addition, the Company had advanced \$36.2 million and \$20.3 million as at December 31, 2014 and December 31, 2013, respectively, to the Pool Managers for working capital purposes. The Company may be required to advance additional working capital funds from time to time. Working capital advances will be returned to the Company when a vessel no longer participates in the applicable pooling arrangement, less any set-offs for outstanding liabilities or contingencies. These activities, which are reflected in the consolidated balance sheets as due from affiliates, are without interest or stated terms of repayment.
- g. The Management Agreement provides for payment to the Manager of a performance fee in certain circumstances. If Gross Cash Available for Distribution for a given fiscal year exceeds \$3.20 per share of the Company's weighted average outstanding common stock (or the *Incentive Threshold*), the Company is generally required to pay a performance fee equal to 20% of all Gross Cash Available for Distribution for such year in excess of the Incentive Threshold. The Company did not incur any performance fees for the years ended December 31, 2014, 2013 and 2012. *Cash Available for Distribution* represents net income (loss) plus depreciation and amortization, unrealized losses from derivatives, non-cash items and any write-offs or other non-recurring items, less unrealized gains from derivatives and net income attributable to the historical results of vessels acquired by the Company from Teekay, prior to their acquisition by us, for the period when these vessels were owned and operated by Teekay. *Gross Cash Available for Distribution* represents Cash Available for Distribution without giving effect to any deductions for performance fees and reduced by the amount of any reserves the Company's Board of Directors may establish during the applicable fiscal period that have not already reduced the Cash Available for Distribution.
- h. Pursuant to certain pooling arrangements (see Note 4), the Pool Managers provide certain commercial services to the pool participants and administer the pools in exchange for a fee currently equal to 1.25% of the gross revenues attributable to each pool participant's vessels and a fixed amount per vessel per day which ranges from \$275 to \$350. Voyage revenues and voyage expenses of the Company's vessels operating in these pool arrangements are pooled with the voyage revenues and voyage expenses of other pool participants. The resulting net pool revenues, calculated on a time-charter equivalent basis, are allocated to the pool participants according

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to an agreed formula. The Company accounts for the net allocation from the pools as net pool revenues from affiliates on the consolidated statements of income. The pool receivable from affiliates as at December 31, 2014 and December 31, 2013 were \$35.3 million and \$10.8 million, respectively.

**14. Other Income (Expense)**

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	\$	\$	\$
Freight tax recovery (expense)	154	(594)	(1,530)
Gain on initial recognition of stock purchase warrant <sup>(Note 6b)</sup>	3,420		
Foreign exchange gain (loss)	138	(107)	(428)
Other	97	(313)	(105)
<b>Total</b>	<b>3,809</b>	<b>(1,014)</b>	<b>(2,063)</b>

**15. Operating Leases****Charters-in**

As at December 31, 2014, minimum commitments to be incurred by the Company under vessel operating leases by which the Company charters-in 12 vessels were approximately \$49.0 million (2015), \$8.5 million (2016) and \$4.8 million (2017). The Company recognizes the expense from these charters, which is included in time-charter hire expense, on a straight-line basis over the firm period of the charters.

**Charters-out**

As at December 31, 2014, eight of the Company's vessels operated under fixed-rate time charter contracts with the Company's customers, of which five contracts are scheduled to expire in 2015 and three contracts are scheduled to expire in 2016. As at December 31, 2014, minimum scheduled future revenues to be received by the Company under time charters then in place were approximately \$44.5 million, comprised of \$36.3 million (2015) and \$8.2 million (2016). The carrying amount of the vessels employed on these time charters at December 31, 2014, was \$224.8 million (2013 - \$431.1 million). The cost and accumulated depreciation of the vessels employed on these time charters as at December 31, 2014 were \$352.4 million (2013 - \$598.1 million) and \$127.6 million (2013 - \$167.0 million), respectively.

The minimum scheduled future revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after December 31, 2014, revenue from unexercised option periods of contracts that existed on December 31, 2014, or variable or contingent revenues. In addition, minimum scheduled future revenues presented above have been reduced by estimated off-hire time for period maintenance. Actual amounts may vary given unscheduled future events such as vessel maintenance.

## 16. Supplemental Cash Flow Information

- a. The changes in non-cash working capital items related to operating activities for the years ended December 31, 2014, 2013, and 2012 are as follows:

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	\$	\$	\$
Accounts receivable and interest receivable	(9,049)	(9,150)	(3,317)
Pool receivables from affiliates	(24,489)	(1,664)	(4,741)
Due from affiliates	(14,511)	(3,204)	(12,177)
Prepaid expenses and other current assets	1,478	(647)	(3,147)
Accounts payable and accrued liabilities	(3,856)	2,092	2,337
Due to affiliates	(928)	7,731	(1,204)
Deferred revenue	(2,324)	(1,603)	855
Other	2,000	(141)	1,600
	<b>(51,679)</b>	<b>(6,586)</b>	<b>(19,794)</b>

- b. Cash interest paid for the year ended December 31, 2014 was \$17.9 million (2013 - \$18.9 million). Cash interest paid (including interest paid by the Dropdown Predecessor) during the year ended December 31, 2012 totalled \$29.3 million including realized loss of \$1.8 million on the interest rate swaps agreements relating to the 2012 Acquired Business.
- c. The portion of the consideration paid to Teekay for the acquisition of a 50% interest in TTOL consisting of 4.2 million of Class B common shares was treated as a non-cash transaction in the Company's statements of cash flows (see note 6c).
- d. Increases and decreases in the amount of debt allocated to Dropdown Predecessor from Teekay have been treated as non-cash transactions in the Company's statement of cash flows. Such repayments for the year ended December 31, 2012 were \$108.7 million.

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**17. Earnings (Loss) Per Share**

The income (loss) available for common stockholders and earnings (loss) per common share presented in the table below excludes the results of operations of the Dropdown Predecessor (see *note 1*).

	Year Ended December 31,		
	2014	2013	2012
	\$	\$	\$
Net income (loss)	57,142	(8,138)	(370,181)
Net loss attributable to the Dropdown Predecessor ( <i>note 1</i> )			9,163
Net income (loss) available for common stockholders	57,142	(8,138)	(361,018)
Weighted-average number of common shares basic	85,882,685	83,591,030	79,539,605
Dilutive effect of stock-based compensation	364,452		
Weighted average number of common shares diluted	86,247,137	83,591,030	79,539,605
Earnings (loss) per common share:			
- Basic	0.67	(0.10)	(4.54)
- Diluted	0.66	(0.10)	(4.54)

**18. Vessel Sales, Vessel Acquisitions and Vessel Impairments**

In December 2014, the Company signed an agreement to acquire one 2008-built Aframax tanker for a purchase price of \$37.0 million and placed \$3.7 million in an escrow fund related to this purchase, which is recorded in other non-current assets in the Company's consolidated balance sheet as of December 31, 2014. In December 2014, the Company also signed agreements to acquire four modern LR2 vessels for a total purchase price of \$193.3 million. The Company took delivery of three and two of these vessels in February and March 2015, respectively (see *note 20*).

In May 2014, the Company sold two wholly-owned subsidiaries, each of which owned one VLCC, to TIL for aggregate proceeds of \$154 million plus related working capital on closing of \$1.7 million. The Company used \$152 million of the sale proceeds to prepay one of the Company's revolving credit facilities and the remainder of the proceeds for general corporate purposes. The Company recognized a \$10.0 million gain on the sale of the two subsidiaries to TIL for the year ended December 31, 2014, which is reflected in the Company's consolidated statements of income (loss).

In January 2013, the Company sold one Aframax tanker for aggregate proceeds of \$9.1 million. The Company recognized a loss on sale of the vessel of \$0.1 million in the year ended December 31, 2013.

The Company's consolidated statement of loss for the year ended December 31, 2012 includes a \$352.5 million write down of seven Suezmax tankers (\$305.6 million), four Aframax tankers (\$44.5 million), and one product tanker (\$2.4 million). When comparing the seven Suezmax tankers to each other, the vessels have a similar age, a similar carrying value and were all being employed in the spot market or on short term time-charters. The primary factors that caused the write downs were a delay in the expected timing of a recovery of the crude tanker market and the expected discrimination impact from more fuel efficient vessels being constructed. One of the four Aframax tankers was held for sale at December 31, 2012 and was subsequently sold in January 2013. All of the vessels were written down to their estimated fair values, using an internally appraised value based on second hand sale and purchase market data.

### **19. Shipbuilding Contracts**

On April 8, 2013, the Company entered into agreements with STX Offshore & Shipbuilding Co., Ltd (or *STX*) of South Korea to construct four, fuel-efficient 113,000 dead-weight tonne Long Range 2 (or *LR2*) product tanker newbuildings plus options to order up to an additional 12 vessels. The payment of the Company's first shipyard installment was contingent on the Company receiving acceptable refund guarantees for the shipyard installment payments. In May 2013, STX commenced a voluntary financial restructuring with its lenders, and as a result, STX's refund guarantee applications were temporarily suspended. In October and November 2013, the Company exercised its options to order eight additional newbuildings, in aggregate, under option agreements relating to the original STX LR2 shipbuilding agreements signed in April 2013. STX did not produce shipbuilding contracts within the specified timeframe of the option declarations and informed the Company that there was no prospect of the refund guarantees being provided under any of the firm or option agreements. Therefore, STX is in breach of the option agreements. In December 2013, the Company terminated the newbuilding agreements and in February 2014, the Company terminated the option agreements. In February 2014, the Company commenced a legal action against STX for damages. In November 2014, the Company placed \$0.6 million in an escrow account as cash security pending the resolution of this matter. These funds are classified as cash and cash equivalents in the Company's consolidated balance sheets as of December 31, 2014.

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**TEEKAY TANKERS LTD. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)**

**20. Subsequent Events**

- a. In December 2014, the Company signed an agreement to acquire one 2008-built Aframax tanker for a purchase price of \$37.0 million and placed \$3.7 million in an escrow fund related to this purchase. In December 2014, the Company also signed agreements to acquire four modern LR2 vessels for a total purchase price of \$193.3 million. The Company took delivery of three and two of these vessels in February and March 2015, respectively (see note 20c).
- b. In December 2014, the Company granted the underwriters for its follow-on public offering of Class A common stock a 30-day option to purchase up to an additional 3 million shares of Class A common stock (see note 3). The underwriters exercised this option and on January 2, 2015, the Company issued 3 million shares of Class A common stock for net proceeds of \$13.7 million.
- c. In January 2015, the Company secured a loan facility in the amount of \$126.6 million with a maturity date of January 30, 2016, which was fully drawn in March 2015. This loan facility is secured by the Aframax tanker and the four modern LR2 vessels which delivered in February and March 2015.