

TEEKAY TANKERS LTD.  
Form 6-K  
December 01, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 6-K**

**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16 of**  
**the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2014**  
**Commission file number 1-33867**

**TEEKAY TANKERS LTD.**  
**(Exact name of Registrant as specified in its charter)**

**4<sup>th</sup> Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda**  
**(Address of principal executive offices)**

Edgar Filing: TEEKAY TANKERS LTD. - Form 6-K

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F       Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).

Yes       No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).

Yes       No

**Table of Contents**

**TEEKAY TANKERS LTD.**

**REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014**

**INDEX**

	PAGE
PART I: FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Unaudited Consolidated Statements of Income (Loss) for the three and nine months ended September 30, 2014 and 2013</u>	3
<u>Unaudited Consolidated Balance Sheets as at September 30, 2014 and December 31, 2013</u>	4
<u>Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	5
<u>Unaudited Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2014</u>	6
<u>Notes to the Unaudited Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	24
<u>PART II: OTHER INFORMATION</u>	25
<u>SIGNATURES</u>	26

Table of Contents

## TEEKAY TANKERS LTD.

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands of U.S. dollars, except share and per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	\$	\$	\$	\$
<b>REVENUES</b>				
Time charter revenues ( <i>note 9a</i> )	19,986	20,600	62,001	67,488
Net pool revenues ( <i>note 9a</i> )	31,648	18,879	82,329	50,470
Voyage charter revenues	1,836		6,214	4,283
Interest income from investment in term loans ( <i>note 3</i> )			9,118	5,683
<b>Total revenues</b>	<b>53,470</b>	<b>39,479</b>	<b>159,662</b>	<b>127,924</b>
Voyage expenses ( <i>note 9a</i> )	(2,872)	(483)	(7,923)	(5,845)
Vessel operating expenses ( <i>note 9a</i> )	(22,935)	(21,859)	(69,314)	(69,745)
Time-charter hire expense	(6,309)	(1,216)	(8,473)	(5,153)
Depreciation and amortization	(12,451)	(11,935)	(37,378)	(35,720)
General and administrative ( <i>note 9a</i> )	(2,890)	(3,317)	(9,245)	(10,240)
Loss provision on investment in term loans ( <i>note 3</i> )		(10,399)		(14,910)
Gain (loss) on sale of vessels ( <i>note 10</i> )			9,955	(71)
<b>Income (loss) from operations</b>	<b>6,013</b>	<b>(9,730)</b>	<b>37,284</b>	<b>(13,760)</b>
Interest expense	(2,042)	(2,440)	(6,663)	(7,555)
Interest income	49	71	247	95
Realized and unrealized gain (loss) on derivative instruments ( <i>note 6</i> )	447	(2,492)	(1,523)	(510)
Equity income ( <i>note 4</i> )	1,612	458	4,221	290
Other (expenses) income ( <i>note 4b</i> )	(217)	(458)	3,317	(828)
<b>Net income (loss)</b>	<b>5,862</b>	<b>(14,591)</b>	<b>36,883</b>	<b>(22,268)</b>
<b>Per common share amounts (<i>note 11</i>)</b>				
- Basic earnings (loss) attributable to stockholders of Teekay Tankers	0.07	(0.17)	0.44	(0.27)
- Diluted earnings (loss) attributable to stockholders of Teekay Tankers	0.07	(0.17)	0.43	(0.27)
- Cash dividends declared	0.03	0.03	0.09	0.09

**Weighted-average number of Class A and Class**

**B common shares outstanding (note 11)**

- Basic	86,429,215	83,591,030	84,584,086	83,591,030
- Diluted	86,828,810	83,591,030	84,942,563	83,591,030

Related party transactions (note 9)

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

Table of Contents

## TEEKAY TANKERS LTD.

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)

	As at September 30, 2014 \$	As at December 31, 2013 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	46,366	25,646
Pool receivable from affiliates, net ( <i>note 9b</i> )	18,669	10,765
Accounts receivable	2,591	4,247
Due from affiliates ( <i>note 9b</i> )	36,674	27,991
Prepaid expenses	12,957	10,361
Investment in term loans ( <i>note 3</i> )		136,061
<b>Total current assets</b>	<b>117,257</b>	<b>215,071</b>
Vessels and equipment		
At cost, less accumulated depreciation of \$288.8 million (2013 - \$251.4 million)	838,139	859,308
Loan to equity accounted investment ( <i>note 4</i> )	8,680	9,830
Equity accounted investments ( <i>note 4</i> )	54,465	8,366
Derivative asset ( <i>note 6</i> )	3,568	
Other non-current assets	4,382	4,954
<b>Total assets</b>	<b>1,026,491</b>	<b>1,097,529</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable	3,491	2,251
Accrued liabilities	20,704	21,069
Current portion of long-term debt ( <i>note 5</i> )	46,959	25,246
Current portion of derivative instruments ( <i>note 6</i> )	6,309	7,344
Deferred revenue	1,739	2,961
Due to affiliates ( <i>note 9b</i> )	9,252	11,323
<b>Total current liabilities</b>	<b>88,454</b>	<b>70,194</b>
Long-term debt ( <i>note 5</i> )	593,297	719,388
Derivative instruments ( <i>note 6</i> )	13,162	17,924
Other long-term liabilities	5,559	5,351
<b>Total liabilities</b>	<b>700,472</b>	<b>812,857</b>

Commitments and contingencies (*note 4, 5 and 6*)

### **Stockholders Equity**

Common stock and additional paid-in capital (300 million shares authorized, 71.2 million Class A and 16.7 million Class B shares issued and outstanding as of September 30, 2014 and 71.1 million Class A and 12.5 million Class B shares issued and outstanding as of December 31, 2013) (*note 8*)

	691,227	673,217
Accumulated deficit	(365,208)	(388,545)
<b>Total stockholders equity</b>	<b>326,019</b>	<b>284,672</b>
<b>Total liabilities and stockholders equity</b>	<b>1,026,491</b>	<b>1,097,529</b>

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

Table of Contents

## TEEKAY TANKERS LTD.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

	Nine Months Ended	
	September 30, 2014	September 30, 2013
	\$	\$
Cash and cash equivalents provided by (used for)		
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	36,883	(22,268)
Non-cash items:		
Depreciation and amortization	37,378	35,720
Loss provision on investment in term loans		14,910
Gain on sale of vessels	(9,955)	
Unrealized gain on derivative instruments	(5,946)	(6,877)
Equity income	(4,221)	(290)
Other	(1,893)	1,149
Change in operating assets and liabilities	(28,854)	(12,332)
Expenditures for dry docking	(14,760)	(9,692)
<b>Net operating cash flow</b>	<b>8,632</b>	<b>320</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	72,897	53,181
Repayments of long-term debt	(15,275)	(17,715)
Prepayment of long-term debt	(162,000)	(25,000)
Equity contribution from Teekay Corporation ( <i>note 9c</i> )	1,267	
Cash dividends paid	(7,528)	(7,522)
<b>Net financing cash flow</b>	<b>(110,639)</b>	<b>2,944</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of vessels	154,000	9,119
Expenditures for vessels and equipment	(1,449)	(1,489)
Investment in Teekay Tanker Operations Ltd. ( <i>note 4c</i> )	(7,153)	
Investment in Tanker Investments Ltd. ( <i>note 4b</i> )	(25,000)	
Investment in High-Q Joint Venture ( <i>note 4a</i> )		(4,000)
Loan repayments from equity accounted investment	1,150	
Term loan advance recoveries	1,179	(4,067)
<b>Net investing cash flow</b>	<b>122,727</b>	<b>(437)</b>
Increase in cash and cash equivalents	20,720	2,827



Cash and cash equivalents, beginning of the period	25,646	26,341
<b>Cash and cash equivalents, end of the period</b>	46,366	29,168

Supplemental cash flow information (note 3 and 4c).

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

Table of Contents

## TEEKAY TANKERS LTD.

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands of U.S. dollars, except share amounts)

	Common Stock and Additional Paid-in Capital				
	Thousands of			Accumulated	Total
	Common	Class A	Class B	Deficit	
	Shares	\$	\$	\$	\$
	#				
<b>Balance as at December 31, 2013</b>	83,591	673,092	125	(388,545)	284,672
Net income				36,883	36,883
Equity contribution from Teekay Corporation (note 9c)				1,267	1,267
Dividends declared				(7,528)	(7,528)
Value assigned to share issuance to Teekay Corporation for purchase of TTOL (note 4)	4,221		17,010		17,010
Purchase of TTOL from Teekay Corporation (note 4)				(7,285)	(7,285)
Shares issued as compensation (note 8)	85	70			70
Equity-based compensation (note 8)		930			930
<b>Balance as at September 30, 2014</b>	87,897	674,092	17,135	(365,208)	326,019

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

---

**Table of Contents**

**TEEKAY TANKERS LTD.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)**

**1. Basis of Presentation**

The unaudited interim consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (or *GAAP*). These financial statements include the accounts of Teekay Tankers Ltd. and its wholly-owned subsidiaries and equity accounted investments (collectively the *Company*). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Company's audited consolidated financial statements filed on Form 20-F for the year ended December 31, 2013. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

**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. 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 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, which were collateral for all amounts owing under the Loans, and the Loans were concurrently discharged. The VLCCs had an estimated fair value of \$144 million on that date, which approximated all the amounts owing under the Loans. 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 2014, the Company sold two wholly-owned subsidiaries, each of which owns one VLCC, to Tanker Investments Ltd. (or *TIL*) (see note 10).

**4. Equity Accounted Investments**

	September 30, 2014	December 31, 2013
	\$	\$
High-Q Joint Venture	10,139	8,366
Tanker Investments Ltd.	26,620	
Teekay Tanker Operations Ltd.	17,706	
Total equity accounted investments	54,465	8,366

- a. The Company has a joint venture arrangement with Wah Kwong Maritime Transport Holdings Limited (or *Wah Kwong*). The Company has a 50% economic interest in the High-Q Investments Ltd. joint venture (or *High-Q*), 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 this 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.

Table of Contents

**TEEKAY TANKERS LTD.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)**

In March 2012, the joint venture entered into a \$68.6 million loan with a financial institution. As at September 30, 2014, the loan had an outstanding balance of \$61.4 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 \$68.6 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 Corporation (*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 6). The stock purchase warrant is a derivative instrument, which had a value of \$3.4 million on issuance which is reflected in the other (expenses) income in the Company's consolidated statements of income (loss) for the nine months ended September 30, 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. As of September 30, 2014, the Company's ownership interest in TIL was 6.51%. In October 2014, the Company purchased an additional 0.9 million common shares of TIL, representing 2.43% of the then outstanding share capital of TIL (see note 13).

In May 2014, the Company sold two wholly-owned subsidiaries, each of which owns one VLCC, to TIL (see note 10).

- c. On August 1, 2014, the Company purchased from Teekay a 50% interest in Teekay Tanker Operations Ltd. (*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 \$24.2 million, including net working capital.

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 \$7.2 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 \$7.3 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.

## 5. Long-Term Debt

	September 30, 2014	December 31, 2013
	\$	\$
Revolving Credit Facilities due through 2018	488,593	580,593
Term Loans due through 2021	151,663	164,041
	640,256	744,634
Less current portion	(46,959)	(25,246)
<b>Total</b>	<b>593,297</b>	<b>719,388</b>

As at September 30, 2014, the Company had three revolving credit facilities (or the *Revolvers*), which, as at such date, provided for aggregate borrowings of up to \$680.9 million, of which \$192.3 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 September 30, 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 \$46.1 million (remainder of 2014), \$120.9 million (2015), \$89.1 million (2016), \$395.9 million (2017), and \$28.9 million (2018). As at September 30, 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 drawn balance for the facility period. As at September 30, 2014, this ratio was 134%. 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 consolidated debt. 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 September 30, 2014, the Company and Teekay were in compliance with all of their covenants in respect of the Revolvers.

As at September 30, 2014, the Company had three term loans outstanding, which totaled \$151.7 million (December 31, 2013 - \$164 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 September 30, 2014, the margins ranged from 0.30% to 1.0% (December 31, 2013 - 0.30% to 1.0%).

---

**Table of Contents****TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)**

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 certain specified subsidiaries of the Company maintain a minimum hull coverage ratio of 120% and 130%, respectively, of the total outstanding balance for the facility period. As at September 30, 2014, the loan-to-value ratios ranged from 204% to 614%. 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 September 30, 2014, the Company and Teekay were in compliance with all of 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 September 30, 2014, the term loan arrangement had an outstanding balance of \$193.5 million, of which \$94.5 million was the Company's share. As of September 30, 2014, the revolving credit facility had an outstanding balance of \$80.2 million, of which \$35 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 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 September 30, 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 6).

The aggregate annual long-term principal repayments required to be made by the Company under the Revolvers and term loans subsequent to September 30, 2014 are \$5.1 million (remaining 2014), \$47 million (2015), \$57.5 million (2016), \$415.3 million (2017) and \$53.2 million (2018) and \$62.2 million (thereafter).

**6. Derivative Instruments**

The Company uses derivatives 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 LIBOR-denominated borrowings.



Realized and unrealized gains (losses) relating to the Company's interest rate swaps have been reported in realized and unrealized gain (loss) on non-designated derivative instruments in the consolidated statements of income (loss). During the three months and nine months ended September 30, 2014, the Company recognized realized losses of \$2.5 million and \$7.5 million, respectively, and unrealized gains of a \$3.4 million and \$5.8 million, respectively, relating to its interest rate swaps. During the three and nine months ended September 30, 2013, the Company recognized realized losses of \$2.5 million and \$7.4 million, respectively, and unrealized gains of \$nil and \$6.9 million, respectively, relating to its interest rate swaps.

The following summarizes the Company's interest rate swap positions as at September 30, 2014:

		Notional Amount \$	Fair Value / Carrying Amount of Asset (Liability) \$	Remaining Interest Term (years)	Fixed Rate (%) <sup>(1)</sup>
	Interest Rate Index				
<b>LIBOR-Based Debt:</b>					
U.S. Dollar-denominated interest rate swap	USD LIBOR 6 month	200,000	(6,794)	2.0	2.61
U.S. Dollar-denominated interest rate swap	USD LIBOR 3 month	100,000	(12,677)	3.0	5.55

(1) Excludes the margin the Company pays on its variable-rate debt, which, as of September 30, 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 order to minimize risk, the Company only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time transactions are entered into.

In addition, 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. The stock purchase warrant expires on January 23, 2019. For purposes of vesting, the stock purchase warrant is divided into 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 \$12.50, \$15.00, \$17.50 and \$20.00, respectively, for such tranche for any ten consecutive trading days, subject to certain trading value requirements. As of September 30, 2014, the fair value of the stock purchase warrant was \$3.6 million, which is reflected in derivative assets on the Company's consolidated balance sheet.

Table of Contents

## TEEKAY TANKERS LTD.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)

During the three and nine months ended September 30, 2014, the Company recognized an unrealized loss of \$0.5 million and an unrealized gain of \$0.1 million, respectively, relating to the changes in the value of the warrant. Unrealized gains and losses are reflected in realized and unrealized gain (loss) on derivative instruments in the Company's consolidated statements of income (loss).

**7. Financial Instruments**

## a. Fair Value Measurements

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see Note 11 to the Company's audited consolidated financial statements filed with its Annual Report on the Form 20-F for the year ended December 31, 2013.

The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis as well as the estimated fair value of the Company's financial instruments that are not accounted for at the fair value on a recurring basis.

	Fair Value Hierarchy Level	September 30, 2014		December 31, 2013	
		Carrying Amount (Liability) \$	Fair Value Asset / (Liability) \$	Carrying Amount (Liability) \$	Fair Value Asset / (Liability) \$
Recurring:					
Cash and cash equivalents	Level 1	46,366	46,366	25,646	25,646
Derivative instruments					
Interest rate swap agreements	Level 2	(19,471)	(19,471)	(25,268)	(25,268)
Stock purchase warrant	Level 3	3,568	3,568		
Other:					
Investment in term loans and interest receivable (note 3)	Level 3			136,061	134,857
Loan to joint venture	Note(1)	8,680	Note(1)	9,830	Note(1)
Long-term debt, including current portion	Level 2	(640,256)	(599,921)	(744,634)	(679,910)

(1) The Company's loan to the High-Q joint venture and the Company's equity investment in the joint venture, are included in the carrying value of the Company's interest in equity accounted investments in these consolidated financial statements. The fair value of these two individual components as at September 30, 2014 and December 31, 2013 was not determinable.

Changes in fair value during the three and nine months ended September 30, 2014 and 2013 for the Company's derivative instrument, a TIL stock purchase warrant, which is described below and is measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Fair value at the beginning of the period	4,026			
Fair value on issuance			3,420	
Unrealized (loss) gain included in earnings	(458)		148	
Fair value at the end of the period	3,568		3,568	

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 at a fixed price of \$10 per share (see note 6). 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 September 30, 2014 is based on the historical volatility of comparable companies of 59.23%. A higher or lower volatility would result in a higher or lower fair value of this derivative asset.

Table of Contents**TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)**

## b. Financing Receivables

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	September 30, 2014	December 31, 2013
			\$	\$
Loan to joint venture	Other internal metrics	Performing	8,680	9,830
Investment in term loans and interest receivable	Collateral	Non-performing <sup>(1)</sup>		136,061
			8,680	145,891

- (1) The borrowers under the Loans were in default on their interest payment obligations since the first quarter of 2013, and subsequently, in default of the repayment of 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 term loans and accrued interest (see note 3), and the vessels were sold in May 2014 (see note 10).

**8. Capital Stock and Stock-Based Compensation**

The authorized capital stock of the Company at September 30, 2014 and December 31, 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. A share of Class A common stock entitles the holder to one vote per share while a share of Class B common stock entitles the holder to five votes per share, subject to a 49% aggregate Class B common stock voting power maximum. As of September 30, 2014, the Company had 71.2 million Class A shares and 16.7 million Class B shares issued and outstanding (71.1 million Class A and 12.5 million Class B shares issued and outstanding as of December 31, 2013). As at September 30, 2014, the Company had no shares of preferred stock issued.

In March 2014, a total of 17,073 Class A common shares, with an aggregate value of \$0.1 million, were granted to the Company's non-management directors as part of their annual compensation for 2014. These Class A common shares were issued from the 1,000,000 shares of Class A common stock reserved under the Teekay Tankers Ltd. 2007 Long-Term Incentive Plan and distributed to the directors.

The Company grants stock 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).

During 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. Each stock option granted in June 2014 has a ten-year term and vests equally over three years from the grant date. During 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. Each stock option granted in March 2014 has a ten-year term and vests 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.

During June 2014, the Company also granted 0.4 million restricted stock units to an officer of the Company, with a fair value of \$1.4 million. During March 2014, the Company also granted 0.2 million restricted stock units to certain employees of Teekay subsidiaries that provide services to the Company with an aggregate fair value of \$0.9 million. Each restricted stock unit is equal in value to one share of the Company's common shares plus reinvested distributions 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.

During the three and nine months ended September 30, 2014, the Company recorded \$0.2 million (2013 - \$0.1 million) and \$1 million (2013 - \$0.3 million), respectively, of expenses related to the restricted stock units. During the three and nine months ended September 30, 2014, the Company recorded \$nil (2013 - \$nil) and \$0.2 million (2013 - \$nil), respectively, of expenses related to the stock options. During the nine months ended September 30, 2014, 122,146 restricted stock units with a market value of \$0.6 million vested and that amount was paid to the grantees by issuing 68,322 shares of Class A common stock, net of withholding taxes.

## 9. Related Party Transactions

- a. The Company charters two vessels to Teekay. In addition, Teekay and its wholly-owned subsidiary and the Company's manager, Teekay Tankers Management Services Ltd. (or *the Manager*), provide commercial, technical, strategic and administrative services to the Company.

**Table of Contents****TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)**

In addition, certain of the Company's vessels participate in pooling arrangements that are managed in whole or in part by subsidiaries of Teekay (collectively the *Pool Managers*). For additional information about these arrangements, please read Item 7 Major Shareholders and Related Party Transactions Related Party Transactions Pooling Agreements in our Annual Report on Form 20-F for the year ended December 31, 2013. Amounts received and paid by the Company for such related party transactions for the periods indicated were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	\$	\$	\$	\$
Time-charter revenues <sup>(i)</sup>	3,754	2,734	11,056	10,036
Pool management fees and commissions <sup>(ii)</sup>	(1,371)	(995)	(3,682)	(2,992)
Commercial management fees <sup>(iii)</sup>	(299)	(264)	(878)	(834)
Vessel operating expenses - crew training	(384)	(255)	(1,063)	(1,011)
Vessel operating expenses - technical management fee <sup>(iv)</sup>	(1,389)	(1,388)	(4,230)	(4,247)
Strategic and administrative service fees	(1,903)	(3,086)	(7,055)	(8,532)

- (i) The Company charters-out the *Pinnacle Spirit* and the *Summit Spirit* to Teekay under fixed-rate time-charter contracts, which expire in November and December of 2014, respectively.
- (ii) The Company's share of the Pool Managers' fees that 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 pool, 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.
- b. 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 on the Company's consolidated balance sheets in due from affiliates or due to affiliates, are without interest or stated terms of repayment. In addition, \$5.7 million and \$5.8 million were payable to the Manager as at September 30, 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 due to affiliates on the consolidated balance sheets. The amounts owing from the Pool Managers for monthly distributions 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 \$26.3 million and \$20.3 million as at September 30, 2014 and December 31, 2013, respectively, to the Pool Managers for working capital purposes. These amounts, which are reflected in the consolidated balance sheets in due from affiliates, are without interest and are repayable when applicable vessels leave the pools.

- c. In April 2010, when the Company purchased the *Kaveri Spirit* 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.
- d. 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 \$24.2 million, including \$7.2 million in net working capital (see note 4c).

#### **10. Sale of Vessels**

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 was used for general corporate purposes.

The Company recognized a \$10.0 million gain on the sale of the two subsidiaries to TIL in the nine months ended September 30, 2014, which is reflected in the Company's consolidated statements of income (loss).

Table of Contents**TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)****11. Income (Loss) Per Share**

Basic income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. The components of basic and diluted income (loss) per share are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net income (loss)	5,862	(14,591)	36,883	(22,268)
Weighted average number of common shares - basic	86,429,215	83,591,030	84,584,086	83,591,030
Dilutive effect of stock-based awards	399,595		358,477	
Weighted average number of common shares - diluted	86,828,810	83,591,030	84,942,563	83,591,030
Net income (loss) per common share:				
- Basic	0.07	(0.17)	0.44	(0.27)
- Diluted	0.07	(0.17)	0.43	(0.27)

**12. 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.

**13. Subsequent Events**

On October 6, 2014, the Company acquired an additional 0.9 million common shares in TIL, representing 2.43% of the then outstanding share capital of TIL. The common shares were acquired at a price of NOK 69 per share, or an aggregate price of \$10.1 million USD. Following completion of the purchase, the Company held 3.4 million common shares in TIL, representing 8.94% of the then outstanding share capital of TIL.

**Table of Contents****TEEKAY TANKERS LTD.****SEPTEMBER 30, 2014****PART I FINANCIAL INFORMATION****ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in Item 1 Financial Statements of this Report on Form 6-K and with our audited consolidated financial statements contained in Item 18 Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 5 Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the year ended December 31, 2013.

**General**

Our business is to own crude 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. As of September 30, 2014, a total of 11 of our vessels operated under fixed-rate time-charter out contracts, one of our vessels operated in the spot market and 15 of our vessels and seven chartered-in vessels operated in the spot market in pooling arrangements, a majority of which are managed in whole or in part by subsidiaries of Teekay Corporation (or *Teekay*). As at September 30, 2014, our fleet was comprised of the following vessels:

	<b>Owned Vessels <sup>(1)</sup></b>	<b>Chartered-in Vessels <sup>(2)</sup></b>	<b>Total</b>
<b>Fixed-rate:</b>			
Suezmax Tankers	2		2
Aframax Tankers	8		8
MR Product Tankers <sup>(3)</sup>	1		1
VLCC Tankers <sup>(4)</sup>	1		1
<b>Total Fixed-Rate Fleet<sup>(5)</sup></b>	<b>12</b>		<b>12</b>
<b>Spot-rate:</b>			
Suezmax Tankers	8		8
Aframax Tankers <sup>(6)</sup>	3	3	6
LR2 Product Tankers <sup>(7)</sup>	3	4	7
MR Product Tankers	2		2
<b>Total Spot Fleet<sup>(8)</sup></b>	<b>16</b>	<b>7</b>	<b>23</b>
<b>Total Teekay Tankers Fleet</b>	<b>28</b>	<b>7</b>	<b>35</b>

1. Vessels owned by Tanker Investments Ltd. (or *TIL*), in which we have a minority equity interest, are excluded from the fleet list.
2. In addition to the in-chartered vessels included in the table, in July 2014, we entered into an agreement to in-charter one additional Aframax tanker, which was delivered in October 2014. Subsequent to quarter end, we entered into agreements to in-charter three additional Aframax tankers, all of which are expected to deliver before the end of 2014.
3. Medium Range (*MR*) product tankers.
4. Very Large Crude Carrier (*VLCC*) owned through a 50/50 joint venture.
5. Three time-charter out contracts are scheduled to expire in 2014, five in 2015, three in 2016 and one in 2018.
6. Three Aframax tankers are currently time-chartered in for periods from 12 to 18 months ending January 2015, June 2015 and September 2015; some of these contracts include options to extend at escalating rates. Four LR2 tankers are currently time-chartered in for periods from 6 to 12 months, two of these periods are ending in February 2015 and the remainder ending in July 2015; all of these contracts have options to extend at escalating rates.
7. Long Range 2 (*LR2*) product tankers.
8. As at September 30, 2014, the four vessel class pooling arrangements in which we participate were comprised of a total of 31 Suezmax tankers, 31 Aframax tankers, 20 LR2 tankers and 41 MR tanker vessels, respectively, including vessels owned by other pool members.

#### **Significant Developments in 2014**

##### **VLCC Mortgage Loan Resolution and Sale of VLCCs to Tanker Investments Ltd. (*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 Very Large Crude Carrier (or *VLCC*) vessels, which previously secured the investment in 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.

## **Table of Contents**

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.

### **Investment in Tanker Investments Ltd.**

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%.

As of September 30, 2014, TIL had completed the acquisition of two 2010-built VLCC vessels from us, four 2009-built Suezmax tankers from Teekay and five 2009 and 2010-built Aframax tankers and two 2012-built coated Aframax vessels from third parties. As of September 30, 2014, TIL had signed an agreement to acquire a 2011-built Aframax from third parties, which was delivered on October 24, 2014, bringing the total number of vessels owned by TIL to fourteen.

In October 2014, we acquired an additional 0.9 million common shares in TIL, representing 2.43% of the then outstanding share capital of TIL. The common shares were acquired at a price of NOK 69 per share, or an aggregate price of \$10.1 million. Following completion of the purchase, we held 3.4 million common shares in TIL, representing 8.94% of the then outstanding share capital of TIL.

### **Acquisition of Teekay's Commercial and Technical Operations**

On August 1, 2014, we purchased from Teekay a 50% interest in Teekay Tanker Operations Ltd. (*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 \$24.2 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 \$7.2 million of working capital we assumed from Teekay in connection with the purchase.

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

During the nine months ended September 30, 2014, we entered into four new in-charter contracts for LR2 vessels and three new in-charter contracts for Aframax vessels, six of which were delivered during the nine months ended September 30, 2014 and one of which was delivered in October 2014. After the quarter end, we secured additional in-charter contracts for three Aframax vessels, which are scheduled to deliver to us in the fourth quarter of 2014. These contacts will bring our total number of time chartered-in vessels to eleven, which will increase 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.

## **Results of Operations**

There are a number of factors that should be considered when evaluating our historical financial performance and assessing our future prospects and we use a variety of financial and operational terms and concepts when analyzing our results of operations. These can be found in Item 5 - Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2013.

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 time-charter equivalent (or *TCE*) rates, which represent net revenues (or revenue less voyage expenses) divided by revenue days, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time-charter out 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.

**Table of Contents****Three and Nine Months Ended September 30, 2014 versus Three and Nine Months Ended September 30, 2013**

The following table presents our operating results for the three and nine months ended September 30, 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)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2014</b>	<b>September 30, 2013</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
Revenues	53,470	39,479	150,544	122,241
Interest income from investment in term loans			9,118	5,683
Less: Voyage expenses	(2,872)	(483)	(7,923)	(5,845)
Net revenues	50,598	38,996	151,739	122,079
Vessel operating expenses	(22,935)	(21,859)	(69,314)	(69,745)
Time-charter hire expense	(6,309)	(1,216)	(8,473)	(5,153)
Depreciation and amortization	(12,451)	(11,935)	(37,378)	(35,720)
General and administrative	(2,890)	(3,317)	(9,245)	(10,240)
Loss provision on investment in term loans		(10,399)		(14,910)
Gain (loss) on sale of vessels			9,955	(71)
Income (loss) from operations	6,013	(9,730)	37,284	(13,760)
Interest expense	(2,042)	(2,440)	(6,663)	(7,555)
Interest income	49	71	247	95
Realized and unrealized gain (loss) on derivative instruments	447	(2,492)	(1,523)	(510)
Equity income	1,612	458	4,221	290
Other (expenses) income	(217)	(458)	3,317	(828)
Net income (loss)	5,862	(14,591)	36,883	(22,268)

**Tanker Market**

Crude tanker spot rates strengthened significantly during the third quarter of 2014, with rates achieving the highest average level for a third quarter since 2008. The increase in tanker rates was primarily due to a combination of stronger seasonal oil demand in July and August, an increase in long-haul crude movements from the Atlantic to Pacific and an increase in oil purchases for onshore commercial and strategic storage. These stronger tanker rates weakened towards the end of the third quarter due to the onset of seasonal refinery maintenance, but have since strengthened again in early October ahead of the peak winter demand season. The recent strength in tanker rates is in part due to the impact of lower global oil prices, which is having a positive impact on tanker rates in a number of ways:

Lower oil prices encourage stockpiling of crude oil, particularly in China where the government continues to fill the second stage of its Strategic Petroleum Reserve;

A contango price structure for crude oil futures encourages buying and could lead to floating storage of oil if the spread between the current and future oil price widens;

Lower oil and fuel prices, if sustained, could translate into higher oil demand over time; and

Reduced bunker prices are positive for tanker earnings by lowering voyage operating costs.

LR2 product tanker spot rates also strengthened during the third quarter, with August rates averaging the highest level since December 2009. LR2 rates have been supported by high levels of Asian naphtha imports from the West coupled with an increase in long-haul product exports from new refineries in the Middle East and Asia. A reduction in global oil prices in recent weeks 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 4.9 million deadweight tonnes (*mdwt*), or 1.0%, in the first nine months of 2014. The majority of the fleet growth occurred in the product tanker sector while the crude tanker fleet grew by just 1.1 *mdwt*, or 0.3%. The global VLCC fleet has grown by a net seven vessels, or 1.1%, in the first nine months of the year while the Suezmax and uncoated Aframax fleets have reduced in size by two vessels, or 0.4%, and 13 vessels, or 2.0%, respectively. Looking ahead, we forecast 2.0% net global tanker fleet growth in 2015 with growth once again weighted towards the product tanker sector and another year of negative fleet growth for the Suezmax and uncoated Aframax sectors.

In October 2014, the International Monetary Fund lowered its outlook for global economic growth to 3.3% in 2014, from 3.7%, and reduced its 2015 outlook to 3.8%, from 4.0%. This downward revision has filtered through to global oil demand forecasts with expected demand growth of 0.9 million barrels per day (*mb/d*) in 2014 and 1.2 *mb/d* in 2015 compared to forecast growth of 1.2 *mb/d* and 1.4 *mb/d*, respectively, in previous forecasts (based on an average of forecasts from the International Energy Agency, the Energy Information Administration, and OPEC).

Despite this downward revision to oil demand forecasts, the tanker market outlook remains positive for the crude tanker sector due to a combination of a shrinking mid-size crude tanker fleet and a continued increase in tanker tonne-mile demand, as an increasing amount of crude oil moves long-haul from the Atlantic to Pacific basins, which is expected to drive an increase in tanker fleet utilization and spot tanker rates during the remainder of 2014 and 2015.

**Table of Contents****Fleet and TCE Rates**

As at September 30, 2014, we owned 27 double-hulled conventional oil and product tankers, time-chartered in three Aframax and four LR2 vessels from third parties, and owned a 50% interest in one VLCC which delivered in June 2013.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Net Revenues <sup>(1)</sup> (in thousands)	Revenue Days	Average TCE per Revenue Day	Net Revenues <sup>(2)</sup> (in thousands)	Revenue Days	Average TCE per Revenue Day
Voyage-charter contracts - Suezmax	\$ 15,436	730	\$ 21,134	\$ 9,887	716	\$ 13,799
Voyage-charter contracts - Aframax	\$ 7,227	371	\$ 19,466	\$ 3,857	284	\$ 13,583
Voyage-charter contracts - LR2	\$ 8,804	511	\$ 17,232	\$ 3,434	275	\$ 12,488
Voyage-charter contracts - MR	\$ 2,013	151	\$ 13,365	\$ 2,751	184	\$ 14,951
Voyage-charter contracts - VLCC	\$ 0		\$ 0			
Time-charter out contracts - Suezmax	\$ 3,749	184	\$ 20,373	\$ 2,733	134	\$ 20,448
Time-charter out contracts - Aframax	\$ 12,445	697	\$ 17,848	\$ 14,469	825	\$ 17,542
Time-charter out contracts - MR	\$ 3,373	92	\$ 36,666	\$ 3,278	92	\$ 35,633
<b>Total</b>	<b>\$ 53,047</b>	<b>2,736</b>	<b>\$ 19,392</b>	<b>\$ 40,409</b>	<b>2,510</b>	<b>\$ 16,100</b>

(1) Excludes a total of \$1.7 million in pool management fees and commissions payable by us to Teekay for commercial management for our vessels and \$0.8 million in off-hire bunker and other expenses.

(2) Excludes a total of \$1.3 million in pool management fees and commissions payable by us to Teekay for commercial management for our vessels and \$0.1 million in off-hire bunker and other expenses.

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Net Revenues <sup>(1)(2)</sup> (in thousands)	Revenue Days	Average TCE per Revenue Day	Net Revenues <sup>(2)(3)</sup> (in thousands)	Revenue Days	Average TCE per Revenue Day
Voyage-charter contracts - Suezmax	\$ 46,360	2,142	\$ 21,642	\$ 27,770	2,134	\$ 13,013
Voyage-charter contracts - Aframax	\$ 17,350	903	\$ 19,209	\$ 10,431	907	\$ 11,501
Voyage-charter contracts - LR2	\$ 16,200	1,054	\$ 15,372	\$ 10,841	818	\$ 13,253
Voyage-charter contracts - MR	\$ 6,547	513	\$ 12,772	\$ 4,602	375	\$ 12,272
Voyage-charter contracts - VLCC	\$ 1,323	96	\$ 13,805			
<b>Total</b>	<b>\$ 11,075</b>	<b>546</b>	<b>\$ 20,283</b>	<b>\$ 10,082</b>	<b>504</b>	<b>\$ 20,004</b>



Time-charter out contracts - Suezmax							
Time-charter out contracts - Aframax	\$ 40,147	2,270	\$ 17,680	\$ 42,983	2,511	\$ 17,118	
Time-charter out contracts - MR	\$ 9,735	273	\$ 35,661	\$ 13,312	424	\$ 31,396	
Total	\$ 148,737	7,797	\$ 19,073	\$ 120,021	7,673	\$ 15,642	

- (1) Excludes a total of \$4.6 million in pool management fees and commissions payable by us to Teekay for commercial management for our vessels and \$1.6 million in off-hire bunker and other expenses.
- (2) Excludes interest income from investment in term loans of \$9.1 million and \$5.7 million for the nine months ended September 30, 2014 and September 30, 2013, respectively.
- (3) Excludes a total of \$3.9 million in pool management fees and commissions payable by us to Teekay for commercial management of our vessels and \$1.2 million in off-hire bunker and other expenses.

Net Revenues. Net revenues were \$50.6 million and \$151.7 million for the three and nine months ended September 30, 2014, respectively, compared to \$39.0 million and \$122.1 million, respectively, for the same periods in the prior year. The increases for the three months and nine months ended September 30, 2014 were primarily due to:

net increases of \$5.7 million and \$6.2 million for the three and nine months ended September 30, 2014 primarily due to one Aframax tanker and four LR2 product tankers that were in-chartered to us during the third quarter of 2014, one Aframax tanker that was in-chartered to us at the end of the second quarter of 2014, and one Aframax tanker that was in-chartered to us in the first quarter of 2013, and the addition of two VLCCs in March 2014 that were subsequently sold to TIL in May 2014. This was partially offset by the redelivery of one in-chartered Aframax tanker to its owner in the prior year;

increases of \$5.3 million and \$18.4 million for the three and nine months ended September 30, 2014 due to higher average realized rates earned by our Suezmax tankers compared to the same periods of the prior year;

an increase of \$3.4 million for the nine months ended September 30, 2014 due to an increase in interest income recognized on our investments in term loans compared to the same period of the prior year;

**Table of Contents**

increases of \$1.7 million and \$7.0 million for the three and nine months ended September 30, 2014 due to higher average realized rates earned by our Aframax tankers compared to the same periods of the prior year; and

increases of \$1.3 million and \$1.7 million for the three and nine months ended September 30, 2014 due to higher average realized rates earned by our LR2 product tankers compared to the same periods of the prior year;  
partially offset by

net decreases of \$1.1 million and \$1.3 million for the three and nine months ended September 30, 2014 due to higher pool management fees, commissions and off-hire bunker expense compared to the same periods of the prior year;

net decreases of \$1.1 million and \$5.4 million for the three and nine months ended September 30, 2014 due to various vessels changing employment between fixed-rate charters and spot voyage charters;

a net decrease of \$0.7 million for the nine months ended September 30, 2014 due to more off-hire days in the first nine months of 2014; and

a decrease of \$0.3 million for the three months ended September 30, 2014 due to lower average realized rates earned by our MR product tankers compared to the same period of the prior year.

Vessel Operating Expenses. Vessel operating expenses were \$22.9 million and \$69.3 million for the three and nine months ended September 30, 2014, respectively, compared to \$21.9 million and \$69.7 million, respectively, for the same periods in the prior year. The changes in operating expenses were primarily due to:

increases of \$0.8 million and \$2.0 million for the three and nine months ended September 30, 2014, respectively, relating to repairs on two Suezmax and one MR tankers during the three months ended September 30, 2014, as well as a heating coil repair on a Suezmax tanker during the first quarter of 2014;

an increase of \$1.0 million for the nine months ended September 30, 2014 relating to the operating expenses incurred by the two VLCCs, which joined our fleet in March 2014 and were subsequently sold to TIL in May 2014; and

an increase of \$0.2 million for the three months ended September 30, 2014 relating to the differences in crew composition and the timing of crew related costs compared to the same period of the prior year;  
offset by

a decrease of \$1.9 million for the nine months ended September 30, 2014 relating to the timing and extent of planned vessel maintenance;

a decrease of \$1.0 million for the nine months ended September 30, 2014 primarily due to lower insurance renewal rates and the timing of port disbursements; and

a decrease of \$0.5 million for the nine months ended September 30, 2014 relating to differences in crew composition and the timing of crew related costs.

*Time-charter Hire Expense.* Time-charter hire expense increased to \$6.3 million and \$8.5 million for the three and nine months ended September 30, 2014, respectively, compared to \$1.2 million and \$5.2 million, respectively, for the same periods in the prior year, primarily due to the addition of one in-chartered Aframax tanker and four in-chartered LR2 tankers to our fleet in the three months ended September 30, 2014, as well as the addition of one in-chartered Aframax tanker in June of 2014.

*Depreciation and Amortization.* Depreciation and amortization expense was \$12.5 million and \$37.4 million for the three and nine months ended September 30, 2014, respectively, compared to \$11.9 million and \$35.7 million, respectively, for the same periods in the prior year. The increase primarily relates to higher amortization of dry-docking expenditures in the current year as compared to the prior year.

*General and Administrative Expenses.* General and administrative expenses were \$2.9 million and \$9.2 million for the three and nine months ended September 30, 2014, respectively, compared to \$3.3 million and \$10.2 million, respectively, for the same periods in the prior year. The changes primarily are the result of:

decreases of \$0.8 million and \$1.8 million for the three and nine months ended September 30, 2014, respectively, due to lower administrative and strategic management fees incurred;  
partially offset by

an increase of \$0.4 million for the three months ended September 30, 2014 as a result of higher corporate expenses incurred primarily as a result of increase in legal expenses related to STX arbitration; and

an increase of \$1 million for nine months ended September 30, 2014 due to increased stock-based compensation expenses related to restricted stock units and stock options granted to certain employees of Teekay subsidiaries that provide services to us and to one of our officers.

**Table of Contents**

**Interest expense.** Interest expense was \$2.0 million and \$6.7 million for the three and nine months ended September 30, 2014, respectively, compared to \$2.4 million and \$7.6 million, respectively, for the same periods in the prior year. The reductions in interest expense for the three and nine months ended September 30, 2014 were due primarily 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.

**Realized and unrealized gains and losses on derivative instruments.** Realized and unrealized gain on interest rate swaps were \$0.9 million for the three months ended September 30, 2014 and a loss of \$1.7 million for the nine months ended September 30, 2014 compared to realized and unrealized losses of \$2.5 million and \$0.5 million, respectively, for the same periods in the prior year. As at September 30, 2014, we had interest rate swap agreements with aggregate average outstanding notional amounts of \$300 million and with weighted-average fixed rates of 4.5%, compared to \$300 million and with weighted-average fixed rates of 4.4% at September 30, 2013.

The changes in the fair value of the interest rate swaps resulted in an unrealized gain of \$3.4 million and \$5.8 million for the three and nine months ended September 30, 2014, respectively, compared to unrealized gains of \$nil and \$6.9 million, respectively, for the same periods in the prior year, and were due to increases in forward interest rates.

In addition to interest rate swaps, we have a stock purchase warrant entitling us to purchase up to 750,000 shares of common stock of TIL at a fixed price. The stock purchase warrant had a fair value of \$3.6 million as of September 30, 2014 and we recognized an unrealized loss of \$0.5 million in the three months ended September 30, 2014 and an unrealized gain of \$0.1 million in the nine months ended September 30, 2014. Please refer to Item 1 Financial Statements: Note 6 Derivative Instruments.

**Equity income.**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
High-Q Joint Venture	844	458	1,773	290
Tanker Investments Ltd.	(60)		(434)	
Dilution gain in respect of the initial public offering of Tanker Investments Ltd.			2,054	
Teekay Tanker Operations Ltd.	828		828	
<b>Total equity income</b>	<b>1,612</b>	<b>458</b>	<b>4,221</b>	<b>290</b>

Equity income was \$1.6 million and \$4.2 million for the three and nine months ended September 30, 2014, respectively, compared to \$0.5 million and \$0.3 million, respectively, for the same periods in the prior year. The increase of \$1.1 million for the three months ended September 30, 2014 is primarily due to equity income from investment in TTOL and higher equity earnings from the High-Q joint venture, partially offset by an equity loss from TIL. The increase of \$3.9 million in the nine months ended September 30, 2014 primarily relates to a \$2.1 million dilution gain as a result of our reduced ownership interest in TIL from TIL's share issuance completed as part of its initial public offering in March 2014 as well as equity income from investment in TTOL earned in the third quarter of 2014. Please refer to Item 1 Financial Statements: Note 4 Equity Accounted Investments.

The High-Q joint venture has an interest rate 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. During the three and nine months ended September 30, 2014, our proportionate share of realized losses was \$0.2 million and \$0.6 million, respectively, and unrealized gains were \$0.2 million and \$0.1 million, respectively. During the three and nine months ended September 30, 2013, our proportionate share of realized losses was \$0.2 million and \$0.2 million, respectively, and unrealized losses were \$0.1 million and \$0.3 million, respectively.

Other (expenses) income. Other expenses were \$0.2 million and other income was \$3.3 million for the three and nine months ended September 30, 2014, respectively, compared to other expenses of \$0.5 million and \$0.8 million, respectively, for the same periods in the prior year. The increase in the nine months ended September 30, 2014 primarily relates to income of \$3.4 million recognized upon receipt of the TIL stock purchase warrant in the three months ended March 31, 2014, which we received in exchange for our involvement in the formation of TIL.

Net income (loss). As a result of the foregoing factors, we generated net income of \$5.9 million and \$36.9 million for the three and nine months ended September 30, 2014, respectively, compared to a net loss of \$14.6 million and \$22.3 million, respectively, for the same periods in the prior year.

## **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 the sale of vessels, and capital raised through financing transactions. As at September 30, 2014, our total consolidated cash and cash equivalents were \$46.4 million. Our total consolidated liquidity, including cash and undrawn credit facilities was \$238.7 million as at September 30, 2014, compared to \$173.9 million as at December 31, 2013. We anticipate that our primary sources of funds for our short-term liquidity needs will be cash flows from operations, existing cash and cash equivalents and undrawn long-term borrowings, which we believe will be sufficient to meet our existing liquidity needs for at least the next 12 months.

---

**Table of Contents**

Our short-term liquidity requirements are for the payment of operating expenses, dry-docking expenditures, 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.

Our long-term capital needs primarily relate to expansion and maintenance capital expenditures and debt repayment. Expansion capital expenditures primarily represent the acquisition or construction of vessels to the extent the expenditures increase the operating capacity or revenue generated by our fleet, while maintenance capital expenditures primarily consist of expenditures to sustain our operating capacity or revenue generated by our existing fleet. Our primary sources of funds for our long-term liquidity needs are from cash from operations, long-term bank borrowings and other debt or equity financings, or a combination thereof.

Our primary revolving credit facility is repayable in full in November 2017. As of September 30, 2014, the facility had an outstanding balance of \$427.0 million. Immediately preceding its maturity in November 2017, the maximum amount available under the facility will be \$349.4 million. Our ability to refinance any amounts outstanding under this facility on maturity in November 2017 will likely depend on the recovery of the tanker market. If the tanker market does not recover as expected, we may need to raise additional liquidity through the 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 future liquidity requirements may impact the types of investments we make prior to the refinancing of the revolving credit facility.

Our revolving credit facilities and term loans are described in Note 5 to our consolidated financial statements included in Item 1 Financial Statements of this Report. Our revolving credit facilities and term loans contain covenants and other restrictions that 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 currently do not 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 September 30, 2014, we and Teekay were in compliance with all covenants relating to our revolving credit facilities and term loans.

**Cash Flows**

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

**Nine Months Ended**

	<b>September 30, 2014</b>	<b>September 30, 2013</b>
	(in thousands)	(in thousands)
Net cash flow provided by operating activities	8,632	320
Net cash flow (used for) provided by financing activities	(110,639)	2,944
Net cash flow provided by (used for) investing activities	122,727	(437)

***Operating Cash Flows***

Net cash flow provided by operating activities primarily reflects fluctuations as a result of changes in vessel utilization and realized TCE rates, changes 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 fluctuations in operating cash flows historically as a result of highly cyclical spot tanker rates and as a result of the reduction in global oil demand caused by a slow-down in global economic activity.

Net cash flow provided by operating activities increased by \$8.3 million for the nine months ended September 30, 2014 compared to the same period in 2013. This increase was primarily due to the following:

an increase of \$29.9 million in operating earnings before depreciation, amortization, unrealized gains/loss on derivative instruments and changes in other non-cash items related to operating activities, primarily as a result of an increase in average TCE rates earned by our spot-traded vessels and from an increase in interest income recognized from our investment in the term loans.

partially offset by

a \$16.5 million decrease in operating cash flows due to the timing of the settlement of operating assets and liabilities; and

a \$5.1 million decrease in operating cash flows relating to more dry-docking costs incurred in the nine months ended September 30, 2014 compared to the same period in 2013.

**Table of Contents**

***Financing Cash Flows***

Net cash flow used for financing activities in the nine months ended September 30, 2014 increased by \$113.6 million compared to the same period in 2013, primarily as a result of an increase of \$137.0 million in cash outflows as a result of increased long-term debt prepayments (primarily as a result of cash generated from our sale of two VLCCs as described below), partially offset by a net increase in proceeds from additional borrowings under our revolving credit facilities and term loans. For the nine months ended September 30, 2014 compared to the same period in 2013, we borrowed \$19.7 million more under our revolving credit facilities, repaid \$2.4 million less and prepaid \$137.0 million more of our long-term debt.

***Investing Cash Flows***

Net cash flow provided by investing activities in the nine months ended September 30, 2014 increased by \$123.2 million compared to the same period in 2013 primarily due to 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;

\$5.2 million in cash inflows related 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, including net earnings of the vessels under our commercial and technical management (we took over the management of the vessels in May 2013 as a result of the default of the borrowers under the two term loans); and

\$1.2 million cash inflow as a result of net repayments made to us by the High-Q joint venture in the nine months September 30, 2014;

partially offset by

an increase of \$28.2 million in cash outflows from making investments in equity accounted investments. In the nine months ended September 30, 2014, we invested \$25.0 million in shares of common stock of TIL and paid \$7.2 million in connection with the purchase of our investment in TTOL, as compared to \$4.0 million invested in the High-Q joint venture in the same period in 2013; and

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

**Contractual Obligations and Contingencies**

The following table summarizes our long-term contractual obligations as at September 30, 2014:



(in millions of U.S. dollars)	<b>Total</b>	<b>Remainder of 2014</b>	<b>2015 and 2016</b>	<b>2017 and 2018</b>	<b>Beyond 2018</b>
Long-term debt <sup>(1)</sup>	640.3	5.1	104.5	468.5	62.2
Chartered-in vessels (operating leases) <sup>(2)</sup>	33.4	10.8	22.6		
<b>Total</b>	<b>673.7</b>	<b>15.9</b>	<b>127.1</b>	<b>468.5</b>	<b>62.2</b>

- (1) Excludes expected interest payments of \$1.7 million (remaining in 2014), \$12.4 million (2015 and 2016), \$4.4 million (2017 and 2018) and \$1.2 million (beyond 2018). Expected interest payments are based on the existing interest rates for fixed-rate loans that range from 4.06% to 4.9% and existing interest rates for variable-rate loans at LIBOR plus margins that range from 0.3% to 1.0% at September 30, 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 eight in-chartered leases signed as of September 30, 2014. If we exercise all options to extend the terms of signed in-chartered leases, we would expect total payments of \$10.8 million (2014), \$47.2 million (2015), \$18.6 million (2016) and \$0.2 million (2017).

### **Critical Accounting Estimates**

We prepare our financial statements in accordance with GAAP, which require 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 that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties are discussed in this section and Item 5 Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2013. There have been no significant changes to these estimates and assumptions in the nine months ended September 30, 2014, except with regards to the valuation of a derivative asset we recognized in the three months ended March 31, 2014, discussed below.

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

*Description.* Our risk management policies permit the use of derivative financial instruments to manage interest rate risk. In addition, we have a stock purchase warrant, a type of option agreement, to acquire up to an additional 750,000 shares of TIL's common stock at a fixed price. See Item 1 Financial Statements: Note 6 Derivative Instruments. 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 income (loss).

---

**Table of Contents**

*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 our holding of a stock purchase warrant. The fair value of our derivative instruments 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. For interest rate swap agreements, we take 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. For the stock purchase warrant, we take into account the stock price of TIL, and expected volatility of the TIL stock price and an estimate of the risk-free rate.

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 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 1 Financial Statements: Note 6 Derivative Instruments for the effects on the change in fair value of our derivative instruments on our consolidated statements of income (loss).



**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This Report on Form 6-K for the three months ended September 30, 2014 contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and our operations, performance and financial condition, including, in particular, statements regarding:

The timing and certainty of our future growth prospects and opportunities, including future vessel acquisitions;

our financial position and ability to acquire additional assets;

the expected delivery of in-chartered tankers;

tanker market conditions and fundamentals, including the balance of supply and demand in these markets, the expected recovery in the current cyclically-low tanker market, and spot tanker charter rates and oil production;

tanker fleet utilization;

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

our ability to generate surplus cash flow and pay dividends from our existing vessel fleet or from potential vessel acquisitions;

the sufficiency of working capital for short-term liquidity requirements;

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 revolving credit facility due in 2017;

future capital expenditure commitments and the financing requirements for such commitments;

the effect on our business of our acquisition of an ownership interest in Teekay Operations, future growth in the number of vessels under management, and the expected future effect on our financial results;

TIL's intent to opportunistically acquire, operate and sell modern second hand tankers and to benefit from the expected recovery in the tanker market;

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;

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

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

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, predict, will be, will continue, will likely result, or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements, which involve risks and uncertainties. Important factors that could cause actual results to differ materially include, but are not limited to: spot market rate fluctuations; changes in the production of or demand for oil; changes in trading patterns significantly affecting overall vessel tonnage requirements; greater or lower than expected levels of tanker scrapping; greater or lower anticipated levels of vessel newbuilding orders; changes in applicable industry laws and regulations and the timing of implementation of new laws and regulations; the potential for early termination of short- or medium-term contracts and our potential inability to renew or replace short- or medium-term contracts; our potential inability to implement our growth strategy; competitive factors in the markets in which we operate; loss of any customer, time-charter or vessel; our potential inability to raise financing to purchase additional vessels; changes in interest rates and the capital markets; future issuances of our common stock; failure of TIL to acquire additional growth vessels or acquire vessels at prices below long-term average vessel values; changes in our costs, such as the cost of crews, dry-docking expenses and associated off-hire days; dry docking delays; failure of our Board of Directors and its Conflicts Committee to accept future acquisitions of vessels that may be offered by Teekay or third parties; and other factors detailed from time to time in our periodic reports filed with the SEC, including our Annual Report on Form 20-F for the year ended December 31, 2013. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

Table of Contents

## TEEKAY TANKERS LTD.

SEPTEMBER 30, 2014

## PART I FINANCIAL INFORMATION

## ITEM 3 - 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. 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 foreign currency forward contracts or interest rate swaps for trading or speculative purposes.

**Foreign Currency Fluctuation Risk**

Our primary economic environment is the international shipping market. This market utilizes the U.S. Dollar as its functional currency. 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 the Euro and British Pound. As at September 30, 2014, we had not entered into forward contracts as a hedge against changes in foreign exchange rates.

**Interest Rate Risk**

We are exposed to the impact of interest rate changes primarily through our borrowings that require us to make interest payments based on LIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to repay debt. We use interest rate swaps to reduce our exposure to changes in interest rates. Generally our approach is to hedge a substantial majority of our floating-rate debt.

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 our financial instruments at September 30, 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 the interest rate swaps, the table presents their notional amounts and weighted-average interest rates by their expected contractual maturity dates.

	Expected Maturity Date						Total	Fair Value	
	Remainder of 2014	2015	2016	2017	2018	Thereafter		Asset /	Liability
(in millions of U.S. dollars, except percentages)									
Long-Term Debt:									
Variable rate	2.6	37.2	47.8	406.4	45.1	60.9	600.0	559.6	0.85%
Fixed rate	2.5	9.8	9.8	8.9	8.0	1.3	40.3	40.3	4.80%

5.1   47.0   57.6   415.3   53.1   62.2   640.3   599.9

#### Interest Rate Swaps

U.S. Dollar-denominated interest rate swap <sup>(2)</sup>		200.0		200.0	(6.8)	2.61%
U.S. Dollar-denominated interest rate swap <sup>(2)</sup>		100.0		100.0	(12.7)	5.55%

- (1) Rate refers to the weighted-average effective interest rate for our long-term debt, 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. 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. 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 Common Stock equals or exceeds \$12.50, \$15.00, \$17.50 and \$20.00, respectively, for such tranche for any ten consecutive trading days. The stock purchase warrant expires on January 23, 2019.

Table of Contents

**TEEKAY TANKERS LTD.**

**SEPTEMBER 30, 2014**

**PART II OTHER INFORMATION**

Item 1 Legal Proceedings

None

Item 1A Risk Factors

In addition to the other information set forth in this Report on Form 6-K, you should carefully consider the risk factors discussed in Part I, Item 3. Key Information Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2013, which could materially affect our business, financial condition or results of operations.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

None

Item 5 Other Information

None

Item 6 Exhibits

None

**THIS REPORT ON FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO THE FOLLOWING REGISTRATION STATEMENTS OF THE COMPANY.**

**REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-148055) FILED WITH THE SEC ON DECEMBER 13, 2007.**

**REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-194404) FILED WITH THE SEC ON MARCH 7, 2014.**

**REGISTRATION STATEMENT ON FORM F-3 (FILE NO. 333-196915) FILED WITH THE SEC ON JUNE 20, 2014.**





**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 1, 2014

TEEKAY TANKERS LTD.

By: /s/ Vincent Lok  
Vincent Lok

Chief Financial Officer

(Principal Financial and Accounting Officer)