

TEEKAY TANKERS LTD.
Form 6-K
December 07, 2017
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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, 2017
Commission file number 1-33867

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

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

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 ☒

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TEEKAY TANKERS LTD.

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017

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PART I – FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

TEEKAY TANKERS LTD. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF (LOSS) INCOME (notes 1 and 3)

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

	Three Months Ended September 30, 2017 \$	Three Months Ended September 30, 2016 \$	Nine Months Ended September 30, 2017 \$	Nine Months Ended September 30, 2016 \$
REVENUES				
Net pool revenues (note 12a)	28,246	51,217	108,535	258,356
Time-charter revenues (note 12a)	24,681	23,276	85,102	68,884
Voyage charter revenues	25,397	23,176	94,881	59,750
Other revenues (note 4)	12,914	11,885	41,994	40,359
Total revenues	91,238	109,554	330,512	427,349
 Voyage expenses (note 12a)	(18,303)	) (14,638	) (61,488	) (36,488)
Vessel operating expenses (note 12a)	(40,958)	) (44,783	) (131,949	) (136,245)
Time-charter hire expense	(5,835)	) (11,335	) (27,459	) (47,964)
Depreciation and amortization	(24,328)	) (25,888	) (73,652	) (78,576)
General and administrative expenses (note 12a)	(7,622)	) (8,214	) (24,875	) (27,188)
Loss on sale of vessels (note 13)	(7,926)	) (7,903	) (12,495	) (14,323)
(Loss) income from operations	(13,734)	) (3,207	) (1,406	) 86,565
 Interest expense	(7,299)	) (6,809	) (21,681	) (22,421)
Interest income	305	18	744	70
Realized and unrealized gain (loss) on derivative instruments (note 8)	390	3,629	(709	) (7,902)
Equity (loss) income (note 5)	(274)	) 567	(27,174	) 6,416
Other (expense) income (note 9)	(1,768)	) 562	(5,918	) (3,985)
Net (loss) income	(22,380)	) (5,240	) (56,144	) 58,743
 Per common share amounts (note 14)				
- Basic (loss) earnings per share	(0.12	) (0.03	) (0.31	) 0.35
- Diluted (loss) earnings per share	(0.12	) (0.03	) (0.31	) 0.35
- Cash dividends declared	0.03	0.06	0.09	0.15
 Weighted-average number of Class A and Class B common stock outstanding (note 14)				
- Basic	179,224,094	170,059,360	178,853,698	169,967,796
- Diluted	179,224,094	170,059,360	178,853,698	170,233,915

Related party transactions (note 12)

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

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TEEKAY TANKERS LTD. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS (notes 1 and 3)

(in thousands of U.S. dollars)

	As at September 30, 2017 \$	As at December 31, 2016 \$
ASSETS		
Current		
Cash and cash equivalents	60,606	94,157
Restricted cash	1,645	750
Pool receivable from affiliates, net (note 12b)	8,673	24,598
Accounts receivable	22,484	33,789
Vessels held for sale (note 13)	6,400	33,802
Due from affiliates (note 12b)	33,314	48,714
Current portion of derivative assets (note 8)	233	875
Prepaid expenses	15,832	21,300
Total current assets	149,187	257,985
Restricted cash - long-term	2,672	—
Vessels and equipment		
At cost, less accumulated depreciation of \$489.1 million (2016 - \$459.3 million)	1,283,989	1,605,372
Vessels related to capital leases		
At cost, less accumulated depreciation of \$22.5 million (2016 - \$nil) (note 7)	230,696	—
Investments in and advances to equity accounted investments (note 5)	42,927	70,651
Derivative assets (note 8)	3,022	4,538
Intangible assets		
At cost, less accumulated amortization of \$7.2 million (2016 - \$4.8 million)	15,262	17,658
Other non-current assets	139	107
Goodwill	8,059	8,059
Total assets	1,735,953	1,964,370
LIABILITIES AND EQUITY		
Current		
Accounts payable	10,353	14,406
Accrued liabilities	29,756	28,663
Current portion of long-term debt (note 6)	159,087	171,019
Current portion of derivative liabilities (note 8)	81	1,108
Current obligation related to capital leases (note 7)	7,098	—
Deferred revenue	2,955	4,455
Due to affiliates (note 12b)	14,293	36,299
Total current liabilities	223,623	255,950
Long-term debt (note 6)	486,818	761,997
Long-term obligation related to capital leases (note 7)	143,858	—
Other long-term liabilities (note 9)	19,226	13,683
Total liabilities	873,525	1,031,630
Commitments and contingencies (notes 5 - 8)		
Equity		
Common stock and additional paid-in capital (300.0 million shares authorized, 142.2 million Class A and 37.0 million Class B shares issued and outstanding as of Sept 30,	1,143,569	1,103,304

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2017 and 136.1 million Class A and 23.2 million Class B shares issued and outstanding as of December 31, 2016) (note 11)

Accumulated deficit	(281,141	) (182,680)
Entities under Common Control Equity (note 3)	—	12,116	
Total equity	862,428	932,740	
Total liabilities and equity	1,735,953	1,964,370	

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

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TEEKAY TANKERS LTD. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (notes 1 and 3)

(in thousands of U.S. dollars)

	Nine Months Ended September 30, 2017 \$	Nine Months Ended September 30, 2016 \$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net (loss) income	(56,144)	58,743
Non-cash items:		
Depreciation and amortization	73,652	78,576
Loss on sale of vessels (note 13)	12,495	14,323
Unrealized loss (gain) on derivative instruments (note 8)	1,268	(3,021)
Equity loss (income)	27,174	(6,416)
Other	8,827	7,343
Change in operating assets and liabilities	6,118	37,562
Expenditures for dry docking	(6,448)	(6,477)
Net operating cash flow	66,942	180,633
FINANCING ACTIVITIES		
Proceeds from long-term debt, net of issuance costs	14,919	875,467
Repayments of long-term debt	(82,054)	(119,252)
Prepayments of long-term debt	(222,302)	(957,541)
Proceeds from financing related to sales and leaseback of vessels (note 7)	153,000	—
Scheduled repayments of capital lease obligations (note 7)	(2,312)	—
Increase in restricted cash	(2,672)	—
Return of capital to Teekay Corporation (note 3)	—	(15,000)
Cash dividends paid	(15,302)	(42,159)
Proceeds from issuance of Class A common stock (note 11)	5,000	—
Proceeds from equity offerings, net of offering costs (note 11)	8,565	—
Other	(241)	(744)
Net financing cash flow	(143,399)	(259,229)
INVESTING ACTIVITIES		
Proceeds from sale of vessels (note 13)	45,859	14,078
Expenditures for vessels and equipment	(3,503)	(6,728)
Loan repayments from equity accounted investment	550	2,500
Net investing cash flow	42,906	9,850
Decrease in cash and cash equivalents	(33,551)	(68,746)
Cash and cash equivalents, beginning of the period	94,157	156,520
Cash and cash equivalents, end of the period	60,606	87,774

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

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TEEKAY TANKERS LTD. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (notes 1 and 3)

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

	Equity of Entities under Common Control \$	Common Stock Thousands of Common Stock #	Class A \$	Class B \$	Accumulated Deficit \$	Total \$
Balance as at December 31, 2016	12,116	159,304	1,040,669	62,635	(182,680)	) 932,740
Net income (loss)	1,304	—	—	—	(57,448)	) (56,144)
Proceeds from issuance of Class A common stock (note 11)	—	5,955	13,521	—	—	13,521
Acquisition of TTOL (note 3)	(13,420)	13,775	—	25,897	(25,711)	) (13,234)
Dividends declared	—	—	—	—	(15,302)	) (15,302)
Equity-based compensation (note 11)	—	190	847	—	—	847
Balance as at September 30, 2017	—	179,224	1,055,037	88,532	(281,141)	) 862,428

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

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TEEKAY TANKERS LTD. AND SUBSIDIARIES

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 (or consolidated financial statements) have been prepared in conformity with United States generally accepted accounting principles (or GAAP). These consolidated financial statements include the accounts of Teekay Tankers Ltd. and its wholly-owned subsidiaries and the Entities under Common Control (as defined in note 3) (collectively the Company). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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 consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016, filed on Form 6-K with the U.S. Securities and Exchange Commission (or SEC) on October 6, 2017. In the opinion of management, these 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

In May 2014, the Financial Accounting Standards Board (or FASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, (or ASU 2014-09). ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 is effective for the Company January 1, 2018 and shall be applied, at the Company's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company expects that the adoption of ASU 2014-09 will result in a change in the method of recognizing revenue from voyage charters, whereby the Company's method of determining proportional performance will change from discharge-to-discharge to load-to-discharge. This would result in no revenue being recognized from discharge of the prior voyage to loading of the current voyage and all revenue being recognized from loading of the current voyage to discharge of the current voyage. In addition, the Company expects that the adoption of ASU 2014-09 will result in a change in the timing of the recognition of voyage expenses incurred during the period from discharge of the prior voyage to loading of the current voyage. The Company's current policy is to expense such costs as incurred, and following adoption of ASU 2014-09 it is expected such costs to be deferred and amortized over the load-to-discharge period. The Company expects that these principles will also be applied to voyage charters that are included in revenue sharing arrangements (or RSAs) and, consequently, a portion of the Company's monthly net revenue allocation from these revenue sharing arrangements will be deferred and recognized in future months. These changes will result in revenue and voyage expenses being recognized later than compared to the Company's existing revenue and expense recognition policies which may cause additional volatility in revenue and earnings between periods. The Company is in the final stages of completing its assessment of ASU 2014-09 and is

focused on developing process changes, determining the cumulative catch up impact and completing other items required for the adoption of ASU 2014-09.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (or ASU 2016-02). ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company expects to adopt ASU 2016-02 effective January 1, 2018. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company expects that the adoption of ASU 2016-02 will result in a change in accounting method for the lease portion of the daily charter hire for the Company's chartered-in vessels accounted for as operating leases with firm periods of greater than one year. Under ASU 2016-02, the Company will recognize a right-of-use asset and a lease liability on the balance sheet for these charters, whereas currently no right-of-use asset or lease liability is recognized. This will have the result of increasing the Company's assets and liabilities. Based on lease agreements the Company has entered into on or prior to September 30, 2017, the expected increase to the Company's assets and liabilities is not expected to be material. The pattern of expense recognition of chartered-in vessels is expected to remain substantially unchanged, unless the right-of-use asset becomes impaired. The Company is in the final stages of completing its assessment of ASU 2016-02 and is focused on developing process changes, determining the transitional impact and completing other items required for the adoption of ASU 2016-02.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting (or ASU 2016-09). ASU 2016-09 simplifies aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 was effective for the Company January 1, 2017. The impact of adopting this new accounting guidance resulted in a change in presentation of cash payments for tax withholdings on share settled equity awards from an operating cash outflow to financing cash outflow on the Company's statements of cash flows, and this change was applied retrospectively.

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

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which, among other things, provides guidance on two acceptable approaches of classifying distributions received from equity method investees in the statement of cash flows. This update is effective for the Company January 1, 2018, with a retrospective approach. The Company is currently evaluating the effect of adopting this new guidance.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows: Restricted Cash, (or ASU 2016-18). ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 is effective for the Company on January 1, 2018. Adoption of ASU 2016-18 will result in the Company's cash flow statement to be modified to include changes in restricted cash in addition to changes in cash and cash equivalents.

In January 2017, the FASB issued Accounting Standards Update 2017-01, Clarifying the Definition of a Business, (or ASU 2017-01). ASU 2017-01 changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. ASU 2017-01 also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC 606. ASU 2017-01 is effective for annual reporting periods beginning after December 15, 2017, and for interim periods within those years. Early adoption is allowed and accounted for prospectively. If the adoption of ASU 2017-01 is completed prior to the closing of the merger with TIL (see note 5b), this acquisition is expected to be accounted for as an asset acquisition, otherwise the acquisition is expected to be accounted for as a business combination. Unlike a business combination, no goodwill or bargain purchase gain is recognized as part of an asset acquisition.

In August 2017, the FASB issued Accounting Standards Update 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities (or ASU 2017-12). ASU 2017-12 eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also modifies the accounting for components excluded from the assessment of hedge effectiveness, eases documentation and assessment requirements and modifies certain disclosure requirements. ASU 2017-12 will be effective January 1, 2019. The Company is currently evaluating the effect of adopting this new guidance.

3. Acquisition of Entities under Common Control

On May 31, 2017, the Company acquired from Teekay Holdings Ltd., a wholly-owned subsidiary of Teekay Corporation (or Teekay), the remaining 50% interest in Teekay Tanker Operations Ltd. (or TTOL) (see also note 5c) for \$39.0 million, which included \$13.1 million for working capital. The Company issued approximately 13.8 million shares of the Company's Class B common stock to Teekay as consideration in addition to the working capital consideration of \$13.1 million. As a result of the acquisition of a controlling interest in TTOL, the Company's consolidated financial statements prior to the date the Company acquired a controlling interest in TTOL are

retroactively adjusted to eliminate the equity method of accounting previously used for the original 50% interest owned and to include 100% of the assets and liabilities and results of TTOL on a consolidated basis during the periods TTOL and the Company were under common control of Teekay and had begun operations. The effect of adjusting such information to accounts in periods prior to the Company's acquisition of the remaining 50% thereof is referred to as the Entities under Common Control. All intercorporate transactions between the Company and TTOL that occurred prior to the acquisition by the Company have been eliminated upon consolidation.

Assets and liabilities of TTOL are reflected on the Company's consolidated balance sheets at TTOL's historical carrying values. The amount of the net consideration of \$39.0 million that was in excess of TTOL's historical carrying value of the net assets acquired of \$13.3 million has been accounted for as a \$25.7 million return of capital to Teekay.

The effect of adjusting the Company's consolidated financial statements to the TTOL common control transaction decreased the Company's net loss for the nine months ended September 30, 2017 by \$1.3 million, reduced the Company's net loss for the three months ended September 30, 2016 by \$0.2 million, and also increased the Company's net income for the nine months ended September 30, 2016 by \$2.7 million. The adjustments for the Entities under Common Control increased the Company's revenues for the nine months ended September 30, 2017 by \$8.6 million and also increased the Company's revenues for the three and nine months ended September 30, 2016 by \$4.9 million and \$18.2 million, respectively.

In addition, prior to the acquisition, TTOL had paid dividends to the Company and Teekay, which were accounted for as a return of capital on the consolidated statements of cash flows. The effect of adjusting for these common control transactions decreased the Company's inflow of cash from investing activities by \$15.0 million and increased the Company's outflow of cash from financing activities by \$15.0 million, for the nine months ended September 30, 2016.

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TEEKAY TANKERS LTD. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

4. Segment Reporting

The Company has two reportable segments, its conventional tanker segment and its ship-to-ship transfer segment. The Company's conventional tanker segment consists of the operation of all of its tankers, including those employed on full service lightering contracts. The Company's ship-to-ship transfer segment consists of the Company's lightering support services, including those provided to the Company's conventional tanker segment as part of full service lightering operations, as well as consultancy, liquefied natural gas (LNG) terminal management and other related services. Segment results are evaluated based on income from operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Company's consolidated financial statements.

The following tables include results for the Company's revenues and income from vessel operations by segment for the three and nine months ended September 30, 2017 and September 30, 2016.

Three Months Ended September 30, 2017

	Conventional Tanker Segment	Ship-to-Ship Transfer Segment	Inter-segment Adjustment (1)	Total
	\$	\$	\$	\$
Revenues (2)	81,758	11,902	(2,422)	91,238
Voyage expenses	(20,725)	—	2,422	(18,303)
Vessel operating expenses	(32,227)	(8,731)	—	(40,958)
Time-charter hire expense	(4,629)	(1,206)	—	(5,835)
Depreciation and amortization	(23,071)	(1,257)	—	(24,328)
General and administrative expenses (3)	(6,823)	(799)	—	(7,622)
(Loss) gain on sale of vessels	(7,968)	42	—	(7,926)
Loss from operations	(13,685)	(49)	—	(13,734)
Equity loss	(274)	—	—	(274)

Three Months Ended September 30, 2016

	Conventional Tanker Segment	Ship-to-Ship Transfer Segment	Inter-segment Adjustment (1)	Total
	\$	\$	\$	\$
Revenues (2)	100,559	9,837	(842)	109,554
Voyage expenses	(15,480)	—	842	(14,638)
Vessel operating expenses	(37,462)	(7,321)	—	(44,783)
Time-charter hire expense	(10,784)	(551)	—	(11,335)
Depreciation and amortization	(24,651)	(1,237)	—	(25,888)
General and administrative expenses (3)	(7,597)	(617)	—	(8,214)
Loss on sale of vessels	(7,903)	—	—	(7,903)
(Loss) income from operations	(3,318)	111	—	(3,207)
Equity income	567	—	—	567

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TEEKAY TANKERS LTD. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Nine Months Ended September 30, 2017

	Conventional Tanker Segment	Ship-to-Ship Transfer Segment	Inter-segment Adjustment ⁽¹⁾	Total
	\$	\$	\$	\$
Revenues ⁽²⁾	299,154	39,387	(8,029)	330,512
Voyage expenses	(69,517)	—	8,029	(61,488)
Vessel operating expenses	(100,586)	(31,363)	—	(131,949)
Time-charter hire expense	(23,698)	(3,761)	—	(27,459)
Depreciation and amortization	(69,857)	(3,795)	—	(73,652)
General and administrative expenses ⁽³⁾	(22,258)	(2,617)	—	(24,875)
(Loss) gain on sale of vessels	(12,545)	50	—	(12,495)
Income (loss) from operations	693	(2,099)	—	(1,406)
Equity loss	(27,174)	—	—	(27,174)

Nine months ended September 30, 2016

	Conventional Tanker Segment	Ship-to-Ship Transfer Segment	Inter-segment Adjustment ⁽¹⁾	Total
	\$	\$	\$	\$
Revenues ⁽²⁾	398,440	30,922	(2,013)	427,349
Voyage expenses	(38,501)	—	2,013	(36,488)
Vessel operating expenses	(112,248)	(23,997)	—	(136,245)
Time-charter hire expense	(46,670)	(1,294)	—	(47,964)
Depreciation and amortization	(74,925)	(3,651)	—	(78,576)
General and administrative expenses ⁽³⁾	(24,773)	(2,415)	—	(27,188)
(Loss) gain on sale of vessels	(14,323)	—	—	(14,323)
Income (loss) from operations	87,000	(435)	—	86,565
Equity income	6,416	—	—	6,416

The ship-to-ship transfer segment provides lightering support services to the conventional tanker segment for full (1) service lightering operations and the pricing for such services was based on actual costs incurred per voyage starting January 1, 2017 (2016 - based on estimated costs of approximately \$25,000 per voyage).

(2) Revenues, net of the inter-segment adjustment, earned from the ship-to-ship transfer segment are reflected in Other Revenues in the Company's consolidated statements of (loss) income.

(3) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of corporate resources).

A reconciliation of total segment assets to total assets presented in the accompanying consolidated balance sheets is as follows:

	As at September 30, 2017	As at December 31, 2016
	\$	\$
Conventional Tanker Segment	1,635,684	1,828,550

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Ship-to-Ship Transfer Segment	39,663	41,663
Cash and cash equivalents	60,606	94,157
Consolidated total assets	1,735,953	1,964,370

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TEEKAY TANKERS LTD. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

5. Investments in and Advances to Equity Accounted Investments

	As at September 30, 2017 \$	As at December 31, 2016 \$
High-Q Joint Venture	23,811	22,025
Tanker Investments Ltd.	18,202	47,710
Gemini Tankers L.L.C.	914	916
Total	42,927	70,651

The Company has a joint venture arrangement with Wah Kwong Maritime Transport Holdings Limited (or Wah Kwong), whereby the Company has a 50% economic interest in the High-Q joint venture, which is jointly controlled a. by the Company and Wah Kwong. The High-Q joint venture owns one Very Large Crude Carrier (or 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.

As at September 30, 2017, the High-Q joint venture has a loan outstanding with a financial institution with a balance of \$44.2 million (December 31, 2016 – \$48.5 million). The loan is secured by a first-priority mortgage on the VLCC owned by the High-Q joint venture and 50% of the outstanding loan balance is guaranteed by the Company. The High-Q joint venture has an interest rate swap agreement with an outstanding notional amount of \$44.2 million that expires in June 2018, 50% of which is guaranteed by the Company. The remaining 50% is guaranteed by the High-Q joint venture partner. 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.

In January 2014, the Company and Teekay formed Tanker Investments Ltd. (or TIL), which owns and operates conventional tankers. In January 2014, the Company purchased 2.5 million shares of TIL 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 8). The stock purchase warrant is a derivative asset which had an estimated fair value of \$nil b. as at September 30, 2017 (December 31, 2016 - \$0.3 million). The Company also received one preferred share which entitles the Company to elect one board member of TIL. The preferred share does not give the Company a right to any dividends or distributions of TIL. The Company accounts for its investment in TIL using the equity method.

In 2016, TIL repurchased 3.3 million of its own shares on the open market. The common shares were repurchased at a weighted average price of NOK 80.2 per share, or a gross purchase price of \$31.8 million. As of September 30, 2017, the Company's ownership interest in TIL was 11.3% (December 31, 2016 - 11.3%).

On May 31, 2017, the Company entered into a Merger Agreement to acquire the remaining 27.0 million issued and outstanding common shares of TIL, by way of a share-for-share exchange of 3.3 shares of Class A common stock of the Company for each TIL common stock. The transaction is subject to approval by TIL shareholders of the merger and approval by the Company's shareholders of an increase in the authorized number of shares of the Company's Class A common stock, to permit the issuance of Class A common stock as merger consideration. On November 17, 2017, the Company's shareholders voted in favor of increasing the authorized number of the Company's Class A common shares to permit the issuance of Class A common shares as consideration for the merger with TIL. Concurrently, the merger was approved by the shareholders of TIL. The Company amended its amended and restated articles of

incorporation and completed the merger on November 27, 2017, as a result of which TIL became a wholly-owned subsidiary of the Company (see note 16).

The transaction is expected to be accounted for as an acquisition of assets as the Company plans to early adopt ASU-2017-01 (see note 2). As the Company accounts for its current investment in TIL under the equity method of accounting, the Company will be required to remeasure its previously held equity investment to fair value at the acquisition date. Historically, the Company had not recognized an other than temporary impairment in its equity investment in TIL as the Company expected the investment to recover its value over the anticipated hold period. The Company has remeasured its investment in TIL to fair value at June 30, 2017 based on the TIL share price at that date, resulting in a write-down of \$28.1 million in the nine months ended September 30, 2017. The write-down is reflected in equity (loss) income on the Company's consolidated statements of (loss) income. The Company will be required to again remeasure its equity investment to fair value based on the relative share exchange value at the date of the acquisition, which could result in an additional loss or gain in the fourth quarter of 2017.

On May 31, 2017, the Company purchased from Teekay the remaining 50% interest in TTOL, which owns conventional tanker commercial management and technical management operations, including direct ownership in c. four commercially managed RSAs, for \$39.0 million, which included \$13.1 million for assumed working capital (see note 3). Prior to the May 31, 2017 purchase, the Company equity accounted for its initial 50% interest in TTOL.

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6. Long-Term Debt

	As at September 30, 2017 \$	As at December 31, 2016 \$
Revolving Credit Facilities due through 2021	321,330	466,195
Term Loans due through 2021	330,903	475,466
Total principal	652,233	941,661
Less: unamortized discount and debt issuance costs	(6,328)	(8,645)
Total debt	645,905	933,016
Less: current portion	(159,087)	(171,019)
Non-current portion of long-term debt	486,818	761,997

As at September 30, 2017, the Company had two revolving credit facilities (or the Revolvers), which, as at such date, provided for aggregate borrowings of up to \$365.5 million, of which \$44.2 million was undrawn (December 31, 2016 - \$500.5 million, of which \$34.3 million was undrawn). Interest payments are based on LIBOR plus margins, which, at September 30, 2017, the margins ranged between 0.45% and 2.00% (December 31, 2016: 0.45% and 2.00%). The total amount available under the Revolvers reduces by \$5.5 million (remainder of 2017), \$67.3 million (2018), \$nil (2019), \$nil (2020) and \$292.7 million (2021). As at September 30, 2017, the Company also had two term loans outstanding, which totaled \$330.9 million (December 31, 2016 - \$475.5 million). Interest payments on the term loans are based on LIBOR plus margins, which, at September 30, 2017 the margins ranged from 0.30% to 2.00% (December 31, 2016 - 0.30% to 2.00%). The term loan repayments are made in quarterly or semi-annual payments. One term loan also has a balloon or bullet repayment due at maturity in 2021. These revolving credit facilities and term loans are further described below.

In January 2016, the Company entered into a \$894.4 million long-term debt facility (or the 2016 Debt Facility), consisting of both a term loan and a revolving credit component, which are both scheduled to mature in January 2021. In January 2016, \$845.8 million of the 2016 Debt Facility was used to repay the Company's two bridge loan facilities, which matured in late January 2016, and a portion of the Company's corporate revolving credit facility, which was scheduled to mature in 2017. As at September 30, 2017, the corporate revolving credit facility had no outstanding balance (December 31, 2016 - \$55.1 million). The 2016 Debt Facility is collateralized by 30 of the Company's vessels, together with other related security. The 2016 Debt Facility also requires that the Company maintain a minimum hull coverage ratio of 125% of the total outstanding drawn balance for the facility period. Such requirement is assessed on a semi-annual basis with reference to vessel valuations compiled by one or more agreed upon third parties. Should the ratio drop below the required amount, the lender may request that the Company either prepay a portion of the loan in the amount of the shortfall or provide additional collateral in the amount of the shortfall, at the Company's option. As at September 30, 2017, this ratio was 139% (December 31, 2016 - 140%). The vessel values used in this ratio 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 ratio. In addition, the Company is required 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.

The Company's remaining revolver is collateralized by three of the Company's vessels, together with other related security. The revolver requires that the Company's applicable subsidiary to maintain a minimum hull coverage ratio of 105% of the total outstanding drawn balance for the facility period. Such requirement is assessed on an annual basis,

with reference to vessel valuations compiled by an agreed upon third party. Should the ratio drop below the required amount, the lender may request that the Company either prepay a portion of the loan in the amount of the shortfall or provide additional collateral in the amount of the shortfall, at the Company's option. As at September 30, 2017, such revolver, with a minimum hull coverage ratio requirement, had an outstanding balance of \$67.2 million (December 31, 2016 - \$72.0 million) and a hull coverage ratio of 116% (December 31, 2016 - 117%). The vessel values used in this ratio 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 ratio. The revolver is also guaranteed by Teekay and contains covenants that require Teekay to maintain the greater of free cash (cash and cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) of \$50.0 million and at least 5.0% of Teekay's total consolidated debt which has recourse to Teekay.

The Company's remaining term loan is collateralized by two of the Company's vessels, together with other related security. The term loan is guaranteed by Teekay and contains covenants that require Teekay to maintain the greater of (a) free cash (cash and cash equivalents) of at least \$50.0 million and (b) an aggregate of free cash and undrawn committed revolving credit lines with at least six months to maturity of at least 5.0% of Teekay's total consolidated debt which has recourse to Teekay.

As at September 30, 2017, the Company was in compliance with all covenants in respect of the Revolvers and term loans. Teekay has also advised the Company that Teekay is in compliance with all covenants relating to the revolving credit facilities and term loans to which the Company is a party.

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The weighted-average interest rate on the Company's long-term debt as at September 30, 2017 was 3.0% (December 31, 2016 - 2.4%). This rate does not reflect the effect of the Company's interest rate swap agreements (see note 8).

The aggregate annual long-term principal repayments required to be made by the Company under the Revolvers and term loans subsequent to September 30, 2017, excluding the impact of the sale-leaseback transaction completed in July 2017 as described in note 7, are \$26.8 million (remaining 2017), \$155.0 million (2018), \$89.4 million (2019), \$89.4 million (2020) and \$291.6 million (2021).

7. Leases

Capital Lease Obligations

	As at
	September 30, 2017
	\$

Total obligations related to capital leases	150,956
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Less: current portion	(7,098)
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Long-term obligations related to capital leases	143,858
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In July 2017, the Company completed a \$153.0 million sale-leaseback financing transaction with a financial institution relating to four of the Company's Suezmax tankers, the Athens Spirit, Beijing Spirit, Moscow Spirit and Sydney Spirit. Under this arrangement, the Company transferred the vessels to subsidiaries of the financial institution (or collectively the Lessors) and leased the vessels back from the Lessors on bareboat charters for a 12-year term. The Company has the option to purchase each of the four vessels at any point between July 2020 and July 2029.

The Company understands that these vessels and lease operations are the only assets and operations of the Lessors.

The Company operates the vessels during the lease term and as a result is considered to be, under US GAAP, the Lessor's primary beneficiary and therefore the Company consolidates the Lessors for financial reporting purposes.

The liabilities of the Lessors are loans and are non-recourse to the Company. The amounts funded to the Lessors in order to purchase the vessels materially match the funding to be paid by the Company's subsidiaries under the lease-back transaction. As a result, the amounts due by the Company's subsidiaries to the Lessors have been included in obligations related to capital leases as representing the Lessor's loans.

The bareboat charters also require that the Company 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 consolidated debt and obligations related to capital leases (excluding applicable security deposits reflected in restricted cash - long-term on the Company's consolidated balance sheets). In addition, the Company is required for each vessel to maintain a hull coverage ratio of 90% of the total outstanding principal balance during the first three years of the lease period and 100% of the total outstanding principal balance thereafter. Such requirement is assessed annually with reference to vessel valuations compiled by one or more agreed upon third parties. As at September 30, 2017, this ratio was approximately 105%. As at September 30, 2017, the Company was in compliance with all covenants in respect of the obligations related to capital leases.

As at September 30, 2017, the remaining commitments under the four capital leases for Suezmax tankers was approximately \$222.8 million, including imputed interest of \$71.8 million, repayable from 2017 through 2029, as indicated below:

Year	Commitment
Remaining 2017	\$ 4,098

2018	\$ 16,257
2019	\$ 16,257
2020	\$ 16,302
2021	\$ 16,257
Thereafter	\$ 153,666

8. Derivative Instruments

Interest rate swap agreements

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.

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As at September 30, 2017, the Company was committed to the following interest rate swap agreements:

	Interest Rate	Notional Amount	Fair Value / Carrying Amount of Asset	Remaining Term	Fixed Interest Rate
	Index	\$	\$	(years)	(%) ⁽¹⁾
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps	LIBOR	150,414	663	3.3	1.46
U.S. Dollar-denominated interest rate swaps	LIBOR	150,000	1,384	3.3	1.55
U.S. Dollar-denominated interest rate swaps	LIBOR	50,000	1,098	3.3	1.16

(1) Excludes the margin the Company pays on its variable-rate debt, which, as of September 30, 2017, ranged from 0.30% to 2.00%.

The Company is potentially exposed to credit loss in the event of non-performance by the counterparty to the interest rate swap agreements in the event that the fair value results in an asset being recorded. In order to minimize counterparty risk, the Company only enters into interest rate swap agreements with counterparties that are rated A– or better by Standard & Poor’s or A3 or better by Moody’s at the time transactions are entered into.

Stock purchase warrant

The Company has a stock purchase warrant entitling it to purchase up to 750,000 shares of common stock of TIL at a fixed price of \$10 per share. Alternatively, if the shares of TIL’s common stock trade on a national securities exchange or over-the-counter market denominated in Norwegian Kroner, the Company may also exercise the stock purchase warrant at 61.67 Norwegian Kroner (or NOK) per share. The stock purchase warrant expires on January 23, 2019. For purposes of vesting, the stock purchase warrant is divided into four equally sized tranches. If the shares of TIL’s common stock trade on a national securities exchange or over-the-counter market denominated in Norwegian Kroner, each tranche will vest and become exercisable when and if the fair market value of a share of the TIL common stock equals or exceeds 77.08 NOK, 92.50 NOK, 107.91 NOK and 123.33 NOK, respectively, for such tranche for any ten consecutive trading days, subject to certain trading value requirements. As at September 30, 2017, the first two tranches had vested. Upon completion of the Merger Agreement (see note 5b), the stock purchase warrant was cancelled. As a result, no value was recorded for this warrant on the Company’s consolidated balance sheet at September 30, 2017 (see note 10).

Time-charter swap agreement

Effective June 1, 2016, the Company entered into a time-charter swap agreement for 55% of two Aframax equivalent vessels. Under such agreement, the Company received \$27,776 per day, less a 1.25% brokerage commission, and paid 55% of the net revenue distribution of two Aframax equivalent vessels employed in the Company’s Aframax RSA, less \$500 per day, for a period of 11 months plus an additional two months at the counterparty’s option. The purpose of the agreement was to reduce the Company’s exposure to spot tanker market rate variability for certain of its vessels that are employed in the Aframax RSA. The Company did not designate, for accounting purposes, the time-charter swap as a cash flow hedge. As of May 1, 2017, the time-charter swap counter-party did not exercise the two-month option and as such, the agreement was completed as of June 30, 2017.

Forward freight agreements

The Company uses forward freight agreements (or FFAs) in non-hedge-related transactions to increase or decrease its exposure to spot market rates, within defined limits. Net gains and losses from FFAs are recorded within realized and unrealized gain (loss) on derivative instruments in the Company's consolidated statements of (loss) income.

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

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	Current portion of derivative assets \$	Derivative assets \$	Accrued liabilities \$	Current portion of derivative liabilities \$
As at September 30, 2017				
Interest rate swap agreements	204	3,022	(65)	(81)
Forward freight agreements	29	—	(5)	—
	233	3,022	(70)	(81)
As at December 31, 2016				
Interest rate swap agreements	—	4,251	(254)	(1,108)
Stock purchase warrant	—	287	—	—
Time-charter swap	875	—	(667)	—
	875	4,538	(921)	(1,108)

Realized and unrealized gains (losses) relating to the interest rate swaps, stock purchase warrant, time-charter swap and freight forward agreements are recognized in earnings and reported in realized and unrealized gain (loss) on derivative instruments in the Company's consolidated statements of (loss) income as follows:

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Realized	Unrealized	Total	Realized	Unrealized	Total
	(losses)	gains		(losses)	gains	
	\$	\$	\$	\$	\$	\$
Interest rate swap agreements	(154)	401	247	(1,277)	3,800	2,523
Stock purchase warrant	—	—	—	—	(199)	(199)
Time-charter swap agreement	—	—	—	1,096	209	1,305
Forward freight agreements	234	(91)	143	—	—	—
	80	310	390	(181)	3,810	3,629
	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Realized	Unrealized	Total	Realized	Unrealized	Total
	(losses)	gains		(losses)	gains	
	\$	\$	\$	\$	\$	\$
Interest rate swap agreements	(894)	2	(892)	(12,145)	5,914	(6,231)
Stock purchase warrant	—	(287)	(287)	—	(4,447)	(4,447)
Time-charter swap agreement	1,106	(875)	231	1,222	1,554	2,776
Forward freight agreements	347	(108)	239	—	—	—
	559	(1,268)	(709)	(10,923)	3,021	(7,902)

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9. Other Expense

The components of other expense are as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	\$	\$	\$	\$
Freight tax (provision) recovery	(1,864)	488	(6,296)	(4,014)
Foreign exchange gain (loss)	81	69	151	(248)
Other income	15	5	227	277
Total	(1,768)	562	(5,918)	(3,985)

The following reflects the changes in the Company's unrecognized tax benefits, recorded in other long-term liabilities, from December 31, 2016 to September 30, 2017:

	2017
	\$
Balance of unrecognized tax benefits as at January 1	12,882
Increases for positions related to the current period	4,291
Changes for positions taken in prior periods	1,499
Decreases related to statute of limitations	(201)
Balance of unrecognized tax benefits as at September 30	18,471

The majority of the net increase for positions for the nine months ended September 30, 2017 relates to potential tax on freight income.

The Company does not presently anticipate its uncertain tax positions will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected.

10. 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 13 to the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2016.

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.

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		September 30, 2017		December 31, 2016	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		Asset / (Liability)	Asset / (Liability)	Asset / (Liability)	Asset / (Liability)
		\$	\$	\$	\$
Recurring:					
Cash and cash equivalents and restricted cash	Level 1	64,923	64,923	94,907	94,907
Derivative instruments (note 8)					
Interest rate swap agreements ⁽¹⁾	Level 2	3,145	3,145	3,143	3,143
Time-charter swap agreement ⁽¹⁾	Level 3	—	—	875	875
Stock purchase warrant	Level 3	—	—	287	287
Forward freight agreements ⁽¹⁾	Level 2	29	29		
Non-Recurring:					
Vessels held for sale (note 13)	Level 2	6,400	6,400	33,802	33,802
Other:					
Advances to equity accounted investments	Note (2)	9,930	Note (2)	10,480	Note (2)
Long-term debt, including current portion	Level 2	(645,905)	(637,823)	(933,016)	(923,306)
Obligations related to capital leases, including current portion	Level 2	(150,956)	(150,956)		

The fair value of the Company's interest rate swap agreements, time-charter swap agreement and forward freight (1) agreements at September 30, 2017 excludes accrued interest expense which is recorded in accrued liabilities on the unaudited consolidated balance sheets.

The advances to equity accounted investments together with the Company's investments in the equity accounted (2) investments form the net aggregate carrying value of the Company's interests in the equity accounted investments in these consolidated financial statements. The fair values of the individual components of such aggregate interests as at September 30, 2017 and December 31, 2016 were not determinable.

The Company entered into a time-charter swap agreement, now completed, for 55% of two Aframax equivalent vessels (see note 8). The fair value of this derivative agreement was the estimated amount that the Company would have received or paid to terminate the agreement at the reporting date, based on the present value of the Company's projection of future Aframax spot market tanker rates, which were derived from current Aframax spot market tanker rates and estimated future rates, as well as an estimated discount rate.

Changes in fair value during the three and nine months ended September 30, 2017 and 2016 for the Company's time-charter swap agreement, which is described below and was measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Fair value asset - beginning of the period	—	1,345	875	—
Settlements	—	(1,096)	(1,106)	(1,222)

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Realized and unrealized gain	—	1,305	231	2,776
Fair value asset - at the end of the period	—	1,554	—	1,554

The time-charter swap agreement expired in the three months ended June 30, 2017. The estimated fair value of the time-charter swap agreement as of September 30, 2016 was based upon an estimated average daily tanker rate of approximately \$19,000 over the remaining duration of the contract.

During January 2014, the Company received a stock purchase warrant entitling it to purchase up to 750,000 shares of the common stock of TIL (see note 5b). The estimated fair value of the stock purchase warrant for the three and nine months ended September 30, 2016 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. In May 2017, the Company entered into a merger agreement with TIL, which merger was completed on November 27, 2017, resulting in TIL becoming a wholly-owned subsidiary of the Company. Under the terms of the agreement, warrants to purchase or acquire shares of common stock of TIL that had not been exercised as of the effective

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time of the merger, were canceled. As a result, no value was recorded for this warrant in the Company's consolidated balance sheet at September 30, 2017 (see notes 5b and 8).

Changes in fair value during the three and nine months ended September 30, 2017 and 2016 for the TIL stock purchase warrant, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three Months Ended September 30, 2017	September 30, 2016	Nine Months Ended September 30, 2017	September 30, 2016
	\$ \$		\$	\$
Fair value at the beginning of the period	—916		287	5,164
Unrealized gain (loss) included in earnings	—(199)	)	(287)	(4,447)
Fair value at the end of the period	—717		—	717

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, 2017	December 31, 2016
Advances to equity accounted investments	Other internal metrics	Performing	\$ 9,930	\$ 10,480
Total			9,930	10,480

11. Capital Stock and Stock-Based Compensation

The authorized capital stock of the Company at September 30, 2017 and December 31, 2016 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, 2017, the Company had 142.2 million shares of Class A common stock (December 31, 2016 – 136.1 million), 37.0 million shares of Class B common stock (December 31, 2016 – 23.2 million) and no shares of preferred stock (December 31, 2016 – nil) issued and outstanding.

During March 2017, 0.4 million stock options with an exercise price of \$2.23 per share were granted to the Company's non-management directors as part of their annual compensation for 2017. These stock options have a ten-year term and vest immediately. During March 2016, a total of 9,358 shares of Class A common stock with an aggregate value of \$35.0 thousand and 0.3 million stock options with an exercise price of \$3.74 per share were granted to non-management directors of the Company. These shares of Class A common stock and stock options were issued under the Teekay Tankers Ltd. 2007 Long-Term Incentive Plan and distributed to the directors.

In November 2015, the Company re-launched a continuous offering program (or COP) under which the Company may issue new common stock at market prices up to a maximum aggregate amount of \$80.0 million. The Company sold 3,800,000 shares of Class A common stock under the COP during the three months ended March 31, 2017 for net proceeds of \$8.5 million.

In January 2017, the Company issued 2,155,172 shares of Class A common stock in a private placement to Teekay at a price of \$2.32 per share for gross proceeds of \$5.0 million. The gross proceeds from the issuance were used for general corporate purposes, including strengthening the Company's liquidity position and delevering its balance sheet.

On May 31, 2017, the Company purchased from Teekay the remaining 50% interest in TTOL. As consideration for the acquisition, the Company issued 13,775,224 shares of its Class B common stock at a price of \$1.88 per share (see note 3).

On November 27, 2017, the Company amended its amended and restated articles of incorporation to increase the authorized Class A common shares from 200,000,000 to 285,000,000 and the total authorized capital stock from 400,000,000 to 485,000,000. As consideration for the merger with TIL (see note 5), the Company issued 88,977,544 Class A common shares to the TIL shareholders (other than the Company and its subsidiaries) (see note 16).

The Company also grants stock options and restricted stock units as incentive-based compensation under the Teekay Tankers Ltd. 2007 Long-Term Incentive Plan 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

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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 (loss) income.

During March 2017, the Company granted 0.5 million stock options with an exercise price of \$2.23 per share to an officer of the Company and certain employees of Teekay subsidiaries that provide services to the Company. During March 2016, the Company granted 0.2 million stock options with an exercise price of \$3.74 per share to an officer of the Company. Each stock option has a ten-year term and vests equally over three years from the grant date.

The weighted-average fair value of the stock options granted in 2017 to non-management directors and to an officer was \$0.67 (2016 - \$0.87) per option, 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 50.2% (2016 - 51.3%); expected life of five years (2016 - five years); dividend yield of 5.0% (2016 - 7.8%); and risk-free interest rate of 2.1% (2016 - 1.2%). 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 March 2017, the Company also granted 0.4 million (2016 - 0.3 million) restricted stock units to an officer of the Company and certain employees of Teekay subsidiaries that provide services to the Company with an aggregate fair value of \$0.9 million (2016 - \$1.0 million). Each restricted stock unit is equal to one share of the Company's common stock 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 the recipient's termination of service is cancelled, unless their termination arises as a result of the recipient's retirement and, in this 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 stock.

During the three and nine months ended September 30, 2017 and 2016, the Company recorded \$0.2 million and \$0.8 million (2016 - \$0.2 million and \$1.3 million), respectively, of expenses related to the restricted stock units and stock options. During the nine months ended September 30, 2017, a total of 0.3 million restricted stock units (2016 - 0.4 million) with a market value of \$0.6 million (2016 - \$1.5 million) vested and was paid to the grantees by issuing 0.2 million shares (2016 - 0.2 million shares) of Class A common stock, net of withholding taxes.

12. Related Party Transactions

Management Fee - Related and Other

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 pursuant to a long-term management agreement. In addition, the Manager has subcontracted with TTOL and its affiliates to provide certain commercial and technical services to the Company. Certain of the Company's vessels participate in RSAs that are managed by subsidiaries of TTOL (collectively the Pool Managers). Amounts received and paid by the Company for such related party transactions for the periods indicated were as follows:

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	Three Months Ended September 30, 2017	September 30, 2016	Nine Months Ended September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Time-charter revenues ⁽ⁱ⁾	—	417	—	5,404
RSA pool management fees and commissions ⁽ⁱⁱ⁾	—	(2,043)	(2,799)	(7,929)
Commercial management fees ⁽ⁱⁱⁱ⁾	—	(490)	(1,187)	(1,238)
Vessel operating expenses - technical management fee ^(iv)	(2,020)	(2,338)	(6,442)	(6,925)
Strategic and administrative service fees ^(v)	(6,761)	(2,471)	(13,678)	(7,461)
Secondment fees ^(vi)	(148)	—	(188)	—
Lay-up service revenues	—	200	6	432
LNG terminal services revenue ^(vii)	84	—	252	—
Technical management fee revenue ^(viii)	3,828	—	5,048	—
Service revenues	1,003	—	1,280	—
Entities under Common Control (note 3)				
RSA pool management fees and commissions ⁽ⁱⁱ⁾	—	2,043	2,799	7,929
Commercial management fees ⁽ⁱⁱⁱ⁾	—	490	1,187	1,238
Strategic and administrative service fees ^(v)	—	(3,871)	(7,026)	(12,019)
Secondment fees ^(vi)	—	(157)	(248)	(443)
Technical management fee revenue ^(viii)	—	2,396	4,890	7,754
Service revenues	—	1,253	1,772	4,264

The Company chartered-out the Navigator Spirit to Teekay under a fixed-rate time-charter contract, which was (i) scheduled to expire in July 2016. On May 18, 2016, the contract was transferred to the Americas Spirit, and subsequently expired on July 15, 2016.

The Company's share of the Pool Managers' fees is reflected as a reduction to net pool revenues from affiliates on the Company's consolidated statements of (loss) income. The Company acquired the Pool (ii) Managers on May 31, 2017 (notes 3 and 5(c)). Subsequent to the acquisition, the Company's share of the Pool Managers' fees has been eliminated.

The Manager's commercial management fees for vessels on time charter-out contracts and spot-traded vessels not (iii) included in the RSA, which are reflected in voyage expenses on the Company's consolidated statements of (loss) income. Subsequent to the acquisition, the Company's share of the Manager's commercial management fees has been eliminated.

The cost of ship management services provided by the Manager has been presented as vessel operating expenses (iv) on the Company's consolidated statements of (loss) income.

The Manager's strategic and administrative service fees have been presented in general and administrative expenses on the Company's consolidated statements of (loss) income. The Company's executive officers are employees of (v) Teekay or subsidiaries thereof, and their compensation (other than any awards under the Company's long-term incentive plan described in note 11) is set and paid by Teekay or such other subsidiaries. The Company reimburses Teekay for time spent by its executive officers on the Company's management matters through the strategic portion of the management fee.

The Company pays secondment fees for services provided by some employees of Teekay. Secondment fees have (vi) been presented in general and administrative expenses on the Company's consolidated statements of (loss) income. (vii)

In November 2016, the Company's ship-to-ship transfer business signed an operational and maintenance subcontract with Teekay LNG Bahrain Operations L.L.C., an entity wholly-owned by Teekay LNG Partners L.P. (or TGP) (which is controlled by Teekay), for the Bahrain LNG Import Terminal (or the Terminal). The Terminal is owned by Bahrain LNG W.I.L., a joint venture for which Teekay LNG Operating L.L.C., an entity wholly-owned by TGP, has a 30% interest.

The Company receives reimbursements from Teekay who subcontracts technical management services from the (viii) Manager. These reimbursements have been presented in general and administrative expenses on the Company's consolidated statements of (loss) income.

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," as applicable, are without interest or stated terms of repayment. The amounts owing from the RSAs for monthly distributions are reflected in the consolidated balance sheets as pool receivable from affiliates, are without interest and are repayable upon the terms contained within the applicable pool agreement. The Company had advanced \$29.2 million and \$35.7 million as at September 30, 2017 and December 31, 2016, respectively, to the RSAs 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 RSAs.

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Pursuant to a service agreement with the Teekay Aframax RSA, from time to time, the Company may hire vessels to perform full-service lightering services. In the three and nine months ended September 30, 2017, the Company recognized \$0.4 million related to the Garibaldi Spirit, which was chartered-in from the RSA to assist with full-service lightering operations. The contract is scheduled to expire in November 2017.

13. Sales of Vessels

During the three months ended September 30, 2017, the Company recognized a loss on sale of vessels of \$4.2 million related to one Aframax tanker, which was sold and delivered to its buyer in September 2017. The Company also entered into an agreement to sell another Aframax vessel, resulting in a loss on sale of vessels of \$3.8 million. The vessel was written down to its sales price and is classified as held for sale as of September 30, 2017. The vessel was delivered to its new buyer in November 2017 (see note 16).

In July 2017, the Company completed a \$153.0 million sale-leaseback financing transaction relating to four of the Company's Suezmax tankers (see note 7).

In June 2017, one Aframax tanker was sold and delivered to its buyer. The Company recognized a loss on sale of the vessel of \$2.8 million in the nine months ended September 30, 2017.

In February 2017, the date of delivery of one Suezmax tanker to its new owner was extended, and as a result, the sales price was reduced by \$1.3 million. The vessel sale was completed in March 2017, and the Company recognized a loss on sale of the vessel of \$1.5 million in the nine months ended September 30, 2017.

In January 2017, one Suezmax tanker was sold and delivered to its buyer. The Company recognized a loss on the sale of the vessel of \$0.3 million in the nine months ended September 30, 2017. The vessel was previously written down to its agreed sales price of \$16.9 million in the three months ended December 31, 2016.

The Company's consolidated statements of (loss) income for the three and nine months ended September 30, 2016 includes a loss on sale of vessels of \$7.8 million and \$14.2 million, respectively, of two Medium Range (or MR) tankers. One MR tanker was classified as held for sale at September 30, 2016 and was delivered to its buyer in November 2016. The vessel was written down to its agreed sales price. The other MR tanker was sold in August 2016 for a sales price of \$14.0 million, and resulted in a loss on sale of \$0.1 million. The vessel was previously written down to its agreed sales price in the second quarter of 2016.

14. (Loss) Earnings Per Share

The net (loss) income available for common shareholders and (loss) earnings per common share presented in the table below includes the results of operations of the Entities under Common Control which were not purchased solely with cash (note 3):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Net (loss) income	(22,380)	) (5,240	) (56,144	) 58,743
Weighted average number of common shares – basic	179,224,094	170,059,360	178,853,698	169,967,796
Dilutive effect of stock-based awards	—	—	—	266,119
Weighted average number of common shares – diluted	179,224,094	170,059,360	178,853,698	170,233,915

(Loss) earnings per common share:

– Basic	(0.12	) (0.03	) (0.31	) 0.35
– Diluted	(0.12	) (0.03	) (0.31	) 0.35

Stock-based awards that have an anti-dilutive effect on the calculation of diluted earnings per common share, are excluded from this calculation. For the three and nine months ended September 30, 2017, 0.6 million and 0.3 million restricted stock units (2016 - 58.0 thousand and 19.0 thousand) had an anti-dilutive effect on the calculation of diluted earnings per common share. For the three and nine months ended September 30, 2017, options to acquire 1.7 million and 1.6 million (2016 - 0.8 million and 0.7 million) shares of the Company's Class A common stock, respectively, had an anti-dilutive effect on the calculation of diluted earnings per common share. In periods where a loss attributable to shareholders has been incurred, all stock-based awards are anti-dilutive.

15. Liquidity

Management is required to assess if the Company will have sufficient liquidity to continue as a going concern for the one-year period following the issuance of its financial statements. The Company has a portion of a loan facility that is maturing in the first quarter of 2018.

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Based on these factors, over the one-year period following the issuance of these financial statements, the Company expects it will need to obtain additional sources of financing, in addition to amounts generated from operations, to meet its minimum liquidity requirements under its financial covenants. These anticipated additional sources of financing include the refinancing of the loan facility maturing in the first quarter of 2018.

The Company is actively pursuing the alternatives described above, which it considers probable of completion based on the Company's history of being able to refinance loan facilities for similar types of vessels. In addition, the Company expects to obtain liquidity as a result of the merger with TIL, which is expected to close in the fourth quarter of 2017 (see note 5b).

Based on the Company's liquidity at the date these consolidated financial statements were issued, the liquidity it expects to generate from operations over the following year, and by incorporating the Company's plans to raise additional liquidity that it considers probable of completion, the Company estimates that it will have sufficient liquidity to continue as a going concern for at least the one-year period following the issuance of these consolidated financial statements.

16. Subsequent Events

- a. On November 17, 2017, the Company's shareholders voted in favor of increasing the authorized number of its Class A common shares to permit the issuance of Class A common shares as consideration for the merger with TIL. Concurrently, the merger was approved by the shareholders of TIL. The Company amended its amended and restated articles of incorporation and completed the merger on November 27, 2017, as a result of which TIL became a wholly-owned subsidiary of the Company. As consideration for the merger, the Company issued 88,977,544 Class A common shares to the TIL shareholders (other than the Company and its subsidiaries).

- b. In November 2017, the Company completed the sale of one Aframax tanker, the Kareela Spirit. The Company expects to recognize a loss on sale of this vessel of approximately \$0.5 million in the quarter ending December 31, 2017.

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TEEKAY TANKERS LTD. AND SUBSIDIARIES

SEPTEMBER 30, 2017

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 for the year ended December 31, 2016, filed on Form 6-K with the SEC on October 6, 2017.

OVERVIEW

Our business is to own and operate 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 an adjacency to these core competencies, we also provide full service lightering and lightering support services in our ship-to-ship transfer business (or STS). As at September 30, 2017, our fleet consisted of 47 vessels, including four in-chartered vessels, three STS support vessels and one 50%-owned Very Large Crude Carrier (or VLCC). The following table summarizes our fleet as at September 30, 2017:

	Owned and Capital Lease Vessels ⁽¹⁾	Chartered-in Vessels	Total
Fixed-rate:			
Suezmax Tankers	4	—	4
Aframax Tankers	6	—	6
LR2 Product Tankers ⁽²⁾	2	—	2
VLCC Tanker ⁽³⁾	1	—	1
Total Fixed-Rate Fleet ⁽⁴⁾	13	—	13
Spot-rate:			
Suezmax Tankers	16	—	16
Aframax Tankers ⁽⁵⁾	6	2	8
LR2 Product Tankers	5	—	5
Total Spot Fleet ⁽⁶⁾	27	2	29
STS Support Vessels	3	2	5
Total Teekay Tankers Fleet	43	4	47

Vessels owned by Tanker Investments Ltd. (or TIL), in which we had a minority equity interest as of September 30, 2017, are excluded from the fleet list. Effective November 27, 2017, TIL became a wholly-owned subsidiary of the Company.

2. Long Range 2 (or LR2) product tankers.

3. VLCC owned through a 50/50 joint venture.

4. Two time-charter out contracts are scheduled to expire in 2017, ten in 2018 and one in 2019.

5. Two Aframax tankers are currently time-chartered in for initial periods ranging from 12 to 60 months, with one of these periods ended in October 2017 and one ending in 2021.

6. A total of 23 of our owned and capital lease vessels and one of our in-chartered vessels operated in the spot market in revenue sharing arrangements (or RSAs), which are managed by subsidiaries of Teekay Tanker Operations Ltd. (or TTOL, collectively the Pool Managers). As at September 30, 2017, the four vessel class RSAs in which we participate were comprised of a total of 27 Suezmax tankers, 33 modern Aframax tankers, one Aframax tanker over

15 years old, 10 LR2 tankers (of which 9 LR2 tankers are cross-trading in the Aframax RSA). Each pooling arrangement we participate in also includes vessels owned by other revenue sharing members.

SIGNIFICANT DEVELOPMENTS IN 2017

Merger Agreement with Tanker Investments Ltd.

In May 2017, we agreed to acquire all of the remaining issued and outstanding shares of TIL in a share-for-share merger (or the Merger Agreement) at an exchange ratio of 3.3 shares of our Class A common stock for each share of TIL common stock. TIL owns a modern fleet of 10 Suezmax tankers, six Aframax tankers and two LR2 product tankers with an average age of 7.3 years.

On November 17, 2017, our shareholders voted in favor of increasing the authorized number of its Class A common shares to permit the issuance of Class A common shares as consideration for the merger with TIL. Concurrently, the merger was approved by the shareholders of TIL. We amended our amended and restated articles of incorporation on November 27, 2017, increasing the authorized Class A common shares from 200,000,000 to 285,000,000 and the total authorized capital stock from 400,000,000 to 485,000,000. We also completed the TIL merger on November 27, 2017, as a result of which TIL became a wholly-owned subsidiary of the Company. As consideration for the merger, we issued 88,977,544 Class A common shares to the TIL shareholders (other than the Company and its subsidiaries).

As part of the accounting for the Merger Agreement, United States generally accepted accounting principles treat our existing non-controlling interest (or equity investment) in TIL as being disposed of at its existing fair value and concurrently repurchased at such fair value which forms part of the cost of the acquisition of the 100% controlling interest in TIL. As a result of the expected closing of the merger, we recognized an impairment of \$28.1 million during the quarter ended June 30, 2017 related to our equity investment in TIL, based on the TIL share price at June 30, 2017. We will be required to again remeasure our equity investment to fair value at the relative share price at the date of the acquisition, which could result in an additional gain or a loss. There were no significant changes to the estimated fair value of TIL in the third quarter of 2017 and as a result, no additional impairment was recognized at September 30, 2017.

Share Repurchase Program

On September 15, 2017, we announced that our Board of Directors had authorized a share repurchase program for the repurchase of up to \$45.0 million of our shares of Class A common stock in the open market. In addition, we entered into a voting and support agreement with Huber Capital Management L.L.C. (or Huber Capital), whereby Huber Capital agreed to vote its shares in favor of increasing the authorized number of shares of our Class A common stock to permit the issuance of Class A common stock as consideration in the merger with TIL.

Time Chartered-in Vessels

In September 2017, we redelivered one in-chartered Aframax tanker back to its owner.

In April 2017, we redelivered one in-chartered Aframax tanker and one in-chartered LR2 tanker back to their respective owners. In May 2017, one in-chartered Aframax tanker was redelivered back to its owner.

We also redelivered one in-chartered Aframax tanker back to its owner in March 2017.

Vessel Sales

In September 2017, we entered into an agreement to sell one Aframax tanker, the Kareela Spirit. The sale completed in the fourth quarter of 2017. The vessel was written down to its agreed sales price, resulting in a loss on sale of the vessel of \$3.8 million in the three months ended September 30, 2017. Also in September 2017, we completed the sale of one Aframax tanker, the Kanata Spirit, with a loss on sale of \$4.2 million recognized in the third quarter of 2017.

In June 2017, we completed the sale of an Aframax tanker, the Kyeema Spirit. The vessel was written down to its agreed sales price in March 2017. We recognized a loss on sale of the vessel of \$2.8 million in the nine months ended September 30, 2017.

In January and March 2017, we completed the sales of two Suezmax tankers, the Ganges Spirit and Yamuna Spirit, for an aggregate sales price of \$32.6 million. We recognized a loss on sale of the vessels of \$1.8 million in the nine months ended September 30, 2017.

Sale-Leaseback Financing Transaction

In July 2017, we completed a \$153.0 million sale-leaseback financing transaction relating to four of our Suezmax tankers. The transaction is structured as a 12-year bareboat charter at an average rate of approximately \$11,100 per day, with purchase options for all four vessels throughout the lease term beginning in July 2020.

Acquisition of Remaining 50% Interest of Teekay Tanker Operations Ltd.

On May 31, 2017, we completed the acquisition from Teekay Holdings Ltd., a wholly-owned subsidiary of Teekay, of the remaining 50% interest in TTOL for \$39.0 million, which included \$13.1 million for assumed working capital and our issuance to Teekay of approximately 13.8 million shares of our Class B common stock. Prior to May 31, 2017, we owned 50% of TTOL and accounted for this investment using the equity method of accounting. Since we acquired the remaining 50% of TTOL on May 31, 2017, we own 100% of TTOL and now consolidate its results.

Time Charter-Out Vessels

In May 2017, we renewed a time charter-out contract for one Aframax tanker, with a daily rate of \$16,000 and a firm period of 18 months.

In April 2017, we entered into a time charter-out contract for one Suezmax tanker, with a daily rate of \$21,000. The contract has a firm period of 12 months and commenced its contract in April 2017.

During the three months ended March 31, 2017, we entered into a time charter-out contract for one Suezmax tanker, with a daily rate of \$22,000. The contract has a firm period of 12 months and commenced its contract in February 2017.

Continuous Offering Program and Private Placement

In January 2017, we re-opened our continuous offering program (or COP) under which we may issue shares of our Class A common stock at market prices, up to a maximum aggregate amount of \$80.0 million. As at March 31, 2017, we had sold 3.8 million shares under this COP for net proceeds of \$8.5 million, net of issuance costs. No shares were sold under this COP during the quarter ended September 30, 2017. We also issued approximately 2.2 million new shares of Class A common stock to Teekay in a private placement for gross proceeds of \$5.0 million, and the price per share was set to equal the weighted-average price of the Company's Class A common stock for the ten trading days ending on the date of issuance.

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 Exhibit 99.2 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our Report on Form 6-K for the year ended December 31, 2016 filed with the SEC on October 6, 2017.

In accordance with GAAP, we report gross revenues in our consolidated statements of (loss) income 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 (a non-GAAP financial measure) and TCE rates where applicable.

Summary

Our consolidated (loss) income from vessel operations decreased to \$(1.4) million for the nine months ended September 30, 2017, compared to \$86.6 million in the same period last year. The primary reasons for this decrease are as follows:

- a net decrease of \$56.9 million primarily due to lower average realized spot TCE rates earned by our Suezmax, Aframax, LR2 product and MR product tankers, partially offset by higher average rates earned on our out-chartered Aframax tankers;

- a net decrease of \$24.4 million primarily due to various vessel employment changes in response to changing tanker market rates; and

- a net decrease of \$6.4 million primarily due to the losses on sale of vessels of two Suezmax tankers and three Aframax tankers in nine months ended September 30, 2017, compared to the losses on sales of two MR tankers in the nine months ended September 30, 2016.

We manage our business and analyze and report our results of operations on the basis of two reportable segments: the conventional tanker segment and the STS transfer segment. Please read "Item 1 - Financial Statements: Note 4 - Segment Reporting." Details of the changes to our results of operations for each of our segments for the three and nine months ended September 30, 2017, compared to the three and nine months ended September 30, 2016 are provided

below.

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Three and Nine Months Ended September 30, 2017 versus Three and Nine Months Ended September 30, 2016

Conventional Tankers Segment

Our conventional tanker segment consists of conventional crude oil and product tankers that (i) are subject to long-term, fixed-rate time-charter contracts (which have an original term of one year or more), (ii) operate in the spot tanker market, or (iii) are subject to time-charters that are priced on a spot market basis or are short-term, fixed-rate contracts (which have original terms of less than one year), including those employed on full service lightering contracts.

The following table presents our operating results for the three and nine months ended September 30, 2017 and 2016, and compares net revenues for those periods to revenues, the most directly comparable GAAP financial measure:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
(in thousands of U.S. dollars)						
Revenues ⁽¹⁾	81,758	100,559	(18.7)%	299,154	398,440	(24.9)%
Less: Voyage expenses ⁽¹⁾	(20,725)	(15,480)	33.9 %	(69,517)		