TEEKAY TANKERS LTD.
Form 20-F
April 10, 2019

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

FORM 20-F

(Mark One)
¨REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
ýANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
¨TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
¨SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report
For the transition period from to
Commission file number 1-33867

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

Republic of the Marshall Islands
(Jurisdiction of incorporation or organization)
4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
Telephone: (441) 298-2530
(Address and telephone number of principal executive offices)
Edith Robinson
4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
Telephone: (441) 298-2530
Fax: (441) 292-3931
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)
Securities registered, or to be registered, pursuant to Section 12(b) of the Act.

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

Securities registered, or to be registered, pursuant to Section 12(g) of the Act.
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

Indicate the number of outstanding shares of each issuer's classes of capital or common stock as of the close of the period covered by the annual report.
231,550,575 shares of Class A common stock, par value of $0.01 per share.
37,007,981 shares of Class B common stock, par value of $0.01 per share.
Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No ý
If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes ¨ No ý
Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark if the registrant (1) has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer ¨ Accelerated Filer ý Non-Accelerated Filer ¨ Emerging growth company ¨
If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ¨
† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ý	International Financial Reporting Standards as issued by the International Accounting Standards Board ¨	Other ¨

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:
Item 17 ¨ Item 18 ¨
If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý

TEEKAY TANKERS LTD.
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PART I

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

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

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

- our future financial condition, results of operations and future revenues, expenses and capital expenditures, and our expected financial flexibility and ability to fund capital expenditures and pursue acquisitions and other expansion opportunities, including vessel acquisitions;
- our dividend policy and ability to pay dividends on shares of our common stock;
- the crude oil and refined product tanker market fundamentals, including the balance of supply and demand in the tanker market, changes in the world tanker fleet, changes in global oil and refined products demand and tanker demand, the rate of global oil production (including the effect of OPEC supply cuts), and changes in long-haul crude tanker movements, trading patterns, tanker fleet utilization and spot tanker rates;
- anticipated levels of tanker newbuilding orders and deliveries and rates of tanker scrapping or use of tankers for floating storage;
- our compliance with, and the effect on our business and operating results of, covenants under our term loans, credit facilities and obligations related to capital leases;
- our expectation regarding the ability of Teekay Corporation to comply with its covenants under our loan arrangements which Teekay Corporation is a guarantor, including our expectation that Teekay Corporation will refinance its senior notes due in 2020;
- future oil prices, production and refinery capacity;
- the effect of global oil prices, including the potential impact on oil stockpiling, refinery throughput, bunker fuel prices, and oil futures markets;
- our expectations about the availability of vessels to purchase, the expected costs and time it may take to acquire vessels or construct and deliver newbuildings;
- the ability to leverage Teekay Corporation’s relationships and reputation in the shipping industry;
- the expected benefits of participation in revenue sharing arrangements (or RSAs) and purchasing alliances;
- the effectiveness of our chartering strategy in capturing upside opportunities and reducing downside risks, including our ability to take advantage of any tanker market recovery;
- the expected benefits of our ship-to-ship transfer business, including, among others, the ability of the business to provide stable cash flow to help us partially manage the cyclicality of the tanker market, and our ability to grow our presence in, and take advantage of the expected increased volumes moving in and out of, the U.S. Gulf, and to increase our market share in the ship-to-ship global support business;
- the expected benefits of our acquisitions of vessels or businesses;
- our expectation that our U.S. Gulf lightering business will complement our spot trading strategy in the Caribbean to the U.S. Gulf market, allowing us to better optimize the deployment of the fleet that we trade in this region through better scheduling flexibility and utilization;

- the ability to maximize the use of vessels, including the redeployment of vessels no longer under time charters;
- our expectation regarding our vessels' ability to perform to specifications and maintain their hire rates;
- operating expenses, availability of crew, number of off-hire days, dry-docking requirements and insurance costs;
- the impact and expected cost of, and our ability to comply with, new and existing governmental regulations and maritime self-regulatory organization standards applicable to our business, including the expected cost to install ballast water treatment systems on our tankers in compliance with International Maritime Organization (or IMO) proposals and the effect of IMO 2020;
- our ability to obtain all permits, licenses and certificates material to the conduct of our operations;
- the impact on us and the shipping industry of environmental liabilities, including climate change;
- expenses under service agreements with other affiliates of Teekay Corporation;
- the anticipated taxation of our company and of dividends to our shareholders;
- our expectations as to the useful vessel lives and any impairment of our vessels or of goodwill;

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- our customers' increasing emphasis on environmental and safety concerns;
- meeting our going concern requirements and our liquidity needs, including anticipated funds and sources of financing for liquidity and capital expenditure needs and the sufficiency of cash flows, and our estimation that we will have sufficient liquidity for at least a one-year period;
- our ability to refinance existing debt obligations, to raise additional debt and capital to fund capital expenditures and negotiate extensions or redeployments of existing assets;
- the uncertainty of the completion of the February 2019 sale-leaseback financing transaction for two of our Suezmax tankers, the timing of the completion and the expected impact on our liquidity position;
- our expectations and hedging activities relating to foreign exchange, interest rate and spot market risks;
- the ability of counterparties to our derivative and other contracts to fulfill their contractual obligations;
- the delivery timing of new charter-in vessels;
- our position that we are not a passive foreign investment company; and
- our business strategy and other plans and objectives for future operations.

Forward-looking statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to, those factors discussed below in Item 3 – Key Information: Risk Factors and other factors detailed from time to time in other reports we file with or furnish to the U.S. Securities and Exchange Commission (or the SEC).

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

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

Set forth below is selected consolidated financial and other data of Teekay Tankers Ltd. and its subsidiaries for fiscal years 2014 through 2018, which have been derived from our consolidated financial statements. The following table should be read together with, and is qualified in its entirety by reference to, Item 5 – Operating and Financial Review and Prospects included herein, and the historical financial statements and accompanying notes and the Report of Independent Registered Public Accounting Firm thereon (which is included herein), with respect to the fiscal years 2018, 2017 and 2016.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (or ASU 2014-09). ASU 2014-09 requires 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. ASU 2014-09 became effective for Teekay on January 1, 2018. We adopted ASU 2014-09 as a cumulative-effect adjustment as of the date of adoption. As such, periods prior to January 1, 2018 were not retroactively adjusted. The impact to our historical consolidated results of operation for the year ended December 31, 2018 was as follows:

- We previously presented the net allocation for its vessels participating in RSAs as net pool revenues. We have determined that we are the principal in voyages our vessels perform that are included in the RSAs. As such, the revenue from those voyages is presented in voyage charter revenues and the difference between this amount and our net allocation from the RSA is presented as voyage expenses. This had the effect of increasing voyage charter revenues and voyage expenses for the year ended December 31, 2018 by $292.6 million. There was no cumulative impact to opening equity as at January 1, 2018.

- We previously presented all accrued revenue as a component of accounts receivable. We have determined that if the right to such consideration is conditioned upon something other than the passage of time, such accrued revenue should be presented apart from accounts receivable. This had the effect of increasing other current assets and decreasing accounts receivable by $17.9 million at December 31, 2018.

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In December 2015, we purchased two vessels from Teekay Offshore Partners L.P. (or TOO), an entity which was controlled by Teekay at the time. This acquisition was deemed to be a business acquisition between entities under common control. Accordingly, we have accounted for this transaction in a manner similar to the pooling of interest method whereby our consolidated financial statements prior to the date these vessels were acquired by us are retroactively adjusted to include the results of these acquired vessels. The periods retroactively adjusted include all periods that we and the acquired vessels were both under the common control of Teekay and had begun operations.

In May 2017, we acquired from Teekay Holdings Ltd., a wholly-owned subsidiary of Teekay, the remaining 50% interest in Teekay Tanker Operations Ltd. (or TTOL), a company which owns conventional tanker commercial management and technical management operations. This was deemed to be a business acquisition between entities under common control. As a result, our consolidated financial statements prior to the date we acquired the controlling interest in TTOL have been 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 we and TTOL were under common control of Teekay and had begun operations. All intercorporate transactions between us and TTOL that occurred prior to the acquisition have been eliminated upon consolidation.

As a result, our consolidated statements of (loss) income for the years ended December 31, 2017, 2016, 2015, and 2014 reflect the results of operations of TTOL and the vessels acquired from TOO, referred to herein as the "Entities under Common Control," as if we had acquired them when TTOL and each respective vessel began operations under the ownership of Teekay. Please refer to Item 5 – Operating and Financial Review and Prospects: Items You Should Consider When Evaluating Our Results of Operations and Item 18 – Financial Statements: Note 4 – Acquisition of Entities under Common Control.

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

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except share, per share, and fleet data)				
Income Statement Data:					
Revenues [(1)]	$755,763	$431,178	$550,543	$534,681	$276,193
Voyage expenses [(2)]	(360,576)	(77,368)	(53,604)	(18,727)	(9,968)
Vessel operating expenses [(3)]	(209,131)	(175,389)	(182,598)	(137,164)	(98,403)
Time-charter hire expense [(4)]	(19,538)	(30,661)	(59,647)	(74,898)	(32,706)
Depreciation and amortization	(118,514)	(100,481)	(104,149)	(73,760)	(53,292)
General and administrative expenses	(39,775)	(32,879)	(33,199)	(30,403)	(25,130)
Gain (loss) on sale of vessels	170	(12,984)	(20,594)	771	9,955
Restructuring charges	(1,195)	—	—	(6,795)	(812)
Income from operations	7,204	1,416	96,752	193,705	65,837
Interest expense	(58,653)	(31,294)	(29,784)	(17,389)	(8,874)
Interest income	879	907	117	122	445
Realized and unrealized gain (loss) on derivative instruments	3,032	1,319	(964)	(1,597)	5,229
Equity income (loss)	1,220	(25,370)	7,680	11,528	4,951
Freight tax and other expenses	(9,412)	(5,330)	(7,511)	(3,406)	(1,977)
Other income	3,182	329	1,533	663	3,295
Net (loss) income	($52,548)	($58,023)	$67,823	$183,626	$68,906
(Loss) earnings per share [(5)]					
- Basic	($0.20)	($0.31)	$0.40	$1.26	$0.66

- Diluted	($0.20)	($0.31)	$0.40	$1.25	$0.65
Cash dividends declared	$0.03	$0.12	$0.18	$0.24	$0.12
Balance Sheet Data (at end of year):					
Cash and cash equivalents	54,917	71,439	94,157	156,520	187,757
Restricted cash - current and non-current	5,590	4,271	750	870	145
Vessels and equipment (6)	1,401,551	1,737,792	1,605,372	1,767,925	897,237
Vessels related to capital leases (6)	482,010	227,722	—	—	—
Total assets	2,161,086	2,197,348	1,964,370	2,214,803	1,288,844
Total debt (7)	1,129,265	1,120,927	969,315	1,204,485	732,764
Common stock and additional paid in capital	1,295,929	1,294,998	1,103,304	1,094,874	802,650
Total equity	946,933	1,006,601	932,740	899,479	496,684
Cash Flow Data:					

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Cash, cash equivalents and restricted cash provided by (used for):					
Operating cash flows	(7,263	80,489	206,546	201,821	15,881
Financing cash flows	(3,448	(178,466	(290,853	647,678	6,150
Investing cash flows	(4,492	78,780	21,824	880,011	116,300
Number of outstanding shares of common stock at the end of the year	268,558,556	268,201,638	159,304,136	156,030,618	112,064,036
Other Financial Data:					
Net revenues (8)	395,187	353,810	496,939	515,954	266,225
EBITDA (9)	133,152	78,175	209,150	278,059	132,604
Adjusted EBITDA (9)	129,559	125,664	240,198	286,504	121,836
Capital expenditures					
Expenditures for vessels and equipment (10)	(5,827	(4,732	(9,226	(848,229	(2,084
Expenditures for dry docking	(27,896	(16,239	(9,340	(39,617	(17,072
Fleet Data:					
Average number of tankers (11)					
Suezmax	30.0	21.1	22.0	13.4	10.0
Aframax	19.2	17.3	21.8	22.0	15.4
Product	9.0	7.5	9.2	12.2	7.6
VLCC	0.5	0.5	0.5	0.5	0.8

(1) The comparative periods do not include the impact of the January 1, 2018 adoption of ASU 2014-09, Revenue from Contracts with Customers (or ASU 2014-09). Refer to Item 18: Financial Statements: Note 2 Recent Accounting Pronouncements.

(2) Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses also include certain costs associated with full service lightering activities, which include: short-term in-charter expenses, bunker fuel expenses and other port expenses. The comparative periods do not include the impact of the January 1, 2018 adoption of ASU 2014-09. Refer to Item 18: Financial Statements: Note 2 - Recent Accounting Pronouncements.

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

(4) Time-charter hire expense includes vessel operating lease expense incurred to charter-in vessels.

(5) (Loss) earnings per share is determined by dividing (a) net (loss) income after (deducting) adding the amount of net income (loss) attributable to the Entities under Common Control that were purchased solely with cash by (b) the weighted-average number of shares outstanding during the applicable period and the equivalent shares outstanding that are attributable to the Entities under Common Control. The calculation of weighted-average number of shares includes the total Class A and total Class B shares outstanding during the applicable period. The computation of diluted earnings per share assumes the exercise of all dilutive stock options and restricted stock units using the treasury stock method. The computation of diluted loss per share does not assume such exercises.

(6) Vessels and equipment and vessels related to capital leases consists of vessels, at cost less accumulated depreciation.

(7) Total debt includes the current and long-term portion of debt, current and long-term portion of obligations related to capital leases and long-term amounts due to affiliates.

(8) Net revenues is a non-GAAP financial measure. Consistent with general practice in the shipping industry, we use "net revenues" (defined as revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time charters, the charterer pays the voyage expenses, whereas under voyage charters, the ship-owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship owner, pay the voyage expenses, we typically pass the approximate

amount of these expenses on to our customers by charging higher rates under the contract to them. As a result, although revenues from different types of contracts may vary, the net revenues are comparable across the different types of contracts. We principally use net revenues because it provides more meaningful information to us than revenues, the most directly comparable GAAP financial measure. Net revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net revenues with revenues:

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Revenues	$755,763	$431,178	$550,543	$534,681	$267,075
Interest income from investment in term loans	—	—	—	—	9,118
Voyage expenses	(360,576)	(77,368)	(53,604)	(18,727)	(9,968)
Net revenues	$395,187	$353,810	$496,939	$515,954	$266,225

(9) EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before foreign exchange gain (loss), (loss) gain on sale of vessels, realized (gains) losses on interest rate swaps, unrealized gains on derivative instruments, dilution gain on share issuance by the equity-accounted for investment, fair value adjustment of the equity-accounted for investment and share of the above items in non-consolidated equity-accounted for investments. EBITDA and Adjusted EBITDA are used as supplemental financial performance measures by management and by external users of our financial statements, such as investors. EBITDA and Adjusted EBITDA assist our management and investors by increasing the comparability of our fundamental performance from period to period and against the fundamental performance of other companies in our industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including EBITDA and Adjusted EBITDA benefits investors in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in order to assess whether to continue to hold our equity.

Neither EBITDA nor Adjusted EBITDA should be considered an alternative to net (loss) income, operating income, or any other measure of financial performance presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies.

The following table reconciles our historical consolidated EBITDA and Adjusted EBITDA to net (loss) income.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Reconciliation of "EBITDA" and "Adjusted EBITDA" to "Net (loss) income"					
Net (loss) income	$(52,548)	$(58,023)	$67,823	$183,626	$68,906
Depreciation and amortization	118,514	100,481	104,149	73,760	53,292
Interest expense, net of interest income	57,774	30,387	29,667	17,267	8,429
Freight tax and other tax expenses	9,412	5,330	7,511	3,406	1,977
EBITDA	$133,152	$78,175	$209,150	$278,059	$132,604
Foreign exchange (gain) loss (i)	(3,133)	(79)	(1,413)	(613)	292
(Gain) loss on sale of vessels	(170)	12,984	20,594	(771)	(9,955)
Realized (gain) loss on interest rate swaps	(2,316)	994	12,797	9,790	9,993
Unrealized gain on derivative instruments	(579)	(937)	(9,679)	(8,193)	(11,676)
Fair value on initial recognition of stock purchase warrant	—	—	—	—	(3,420)
Dilution gain on equity-accounted for investment	—	—	—	—	(2,054)
Fair value adjustment of TIL	—	26,733	—	—	—
Adjustments related to equity-accounted for investments (ii)	2,605	7,794	8,749	8,232	6,052
Adjusted EBITDA	$129,559	$125,664	$240,198	$286,504	$121,836

(i) Foreign exchange (gain) loss includes an unrealized gain of $3.2 million in 2018 (2017 - loss of $0.2 million, 2016 - loss of $46.0 thousand, 2015 - gain of $1.0 thousand, and 2014 - loss of $0.2 million).

(ii) The following table reflects certain non-GAAP adjustments to the results of our equity-accounted for investments. The adjusted results should not be considered as an alternative to any measure of financial performance presented in accordance with GAAP. Adjustments to equity investments include some, but not all, items that affect equity income and these measures and adjustments may vary among other companies and may not be comparable to adjustments to similarly titled measures of other companies. It should be noted that this measure includes the

Adjusted EBITDA from our equity-accounted for investments. We do not have control over the operations, nor do we have any legal claim to the revenue and expenses of our equity-accounted for investments.

Adjustments relating to equity income from our equity-accounted for investments are as follows:

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Depreciation and amortization	1,745	5,250	5,866	4,517	2,979
Interest expense, net of interest income	876	2,562	2,868	2,763	1,446
Income tax (recovery) expense	—	(1)	(107)	602	1,359
Realized and unrealized (gain) loss on derivative instruments	(16)	(14)	115	344	416
Foreign exchange (gain) loss	—	(3)	7	6	3
Other	—	—	—	—	(151)
Adjustments related to equity-accounted for investments	$2,605	$7,794	$8,749	$8,232	$6,052

(10) Excludes vessels purchased in connection with our acquisition of Tanker Investments Ltd. (or TIL). Please read Item 18. Financial Statements: Note 23 - Acquisition of Tanker Investments Ltd.

(11) Average number of tankers consists of the average number of vessels that were in our possession during a period, including time-chartered in vessels, the vessel owned by our High-Q Investment Ltd. (or High-Q) joint venture with Wah Kwong Maritime Transport Holdings Ltd. and vessels of the Entities under Common Control.

Risk Factors

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

Our ability to repay or refinance debt obligations and to fund our capital expenditures will depend on certain financial, business and other factors, many of which are beyond our control. To the extent we are able to finance these obligations and expenditures with cash from operations or by issuing debt or common shares, our ability to pay cash dividends may be diminished or our financial leverage may increase, or our shareholders may be diluted. Our business may be adversely affected if we need to access other sources of funding.

To fund our existing and future debt obligations and capital expenditures, we may be required to use our existing liquidity or cash from operations, incur borrowings, raise capital through the sale of assets or ownership interests in certain assets or joint venture entity, debt or additional equity securities and/or seek to access other financing sources. Our access to potential funding sources and our future financial and operating performance will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control.

If we are unable to access additional financing arrangements and generate sufficient cash flow to meet our debt, capital expenditure and other business requirements, we may be forced to take actions such as:

- restructuring our debt;
- seeking additional debt or equity capital;
- selling additional assets or equity interest in certain assets or joint venture;
- further reducing cash dividends;
- reducing, delaying or cancelling business activities, acquisitions, investments or capital expenditures; or
- seeking bankruptcy protection.

Such measures might not be successful, and additional debt or equity capital may not be available on acceptable terms or enable us to meet our debt, capital expenditure and other obligations. Some of such measures may adversely affect our business and reputation. In addition, credit agreements may restrict our ability to implement some of these measures.

Use of cash from operations for capital purposes will reduce cash available for dividends to shareholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions in general. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash dividends to shareholders or operate our business as currently conducted. In addition, incurring additional debt may significantly increase interest expense and financial leverage, and issuing additional equity securities may result in significant shareholder dilution and would increase the aggregate amount of cash required to maintain quarterly dividends. The sale of certain assets would reduce cash from operations and the cash available for shareholders.

Our primary liquidity needs in the next few years are to refinance loans as they mature and to make scheduled repayments of debt, in addition to paying debt service costs, quarterly dividends on equity, scheduled repayments of obligations related to our capital leases, operating expenses and dry-docking expenditures and funding general working capital requirements. We anticipate that our primary sources of funds in the next few years will be existing liquidity, cash flows from operations, equity issuances and bank debt or other sources of financing.

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

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

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

Key factors that influence the supply of tanker capacity include:

- environmental concerns and regulations;
- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- conversion of tankers to other uses; and
- the number of vessels that are out of service.

Key factors that influence demand for tanker capacity include:

- supply of oil and oil products;
- demand for oil and oil products;
- regional availability of refining capacity;
- global and regional economic and political conditions;
- the distance oil and oil products are to be moved by sea; and
- changes in seaborne and other transportation patterns.

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

A decline in oil prices may adversely affect our growth prospects and results of operations.

Although global crude oil and gas prices have moderately recovered since falling from the highs of mid-2014, prices have not returned to those same highs and remain volatile due to global and regional geopolitical, economic and strategic risks and changes. A further decline in oil prices may adversely affect our business, results of operations and financial condition and our ability to pay dividends, as a result of, among other things:

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

- potential lower demand for tankers, which may reduce available charter rates and revenue to us upon chartering or rechartering of our vessels;
- customers failing to extend or renew contracts upon expiration;
- the inability or refusal of customers to make charter payments to us due to financial constraints or otherwise; or
- declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.

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A significant increase in crude oil prices could negatively impact tanker freight rates.
Crude oil prices have declined since mid-2014, which has generally benefited the tanker market as it has led to higher oil demand, stronger refining margins, additional import demand for stockpiling purposes and lower bunker costs. A significant increase in crude oil prices compared to current levels could reverse many of these positive drivers and negatively impact tanker freight rates.
Changes in the oil markets could result in decreased demand for our vessels and services.
Demand for our vessels and services in transporting oil depends upon world and regional oil markets. Any decrease in shipments of crude oil in those markets could have a material adverse effect on our business, financial condition and results of operations. Historically, those markets have been volatile as a result of the many conditions and events that affect the price, production and transport of oil, including competition from alternative energy sources. Past slowdowns of the U.S. and world economies have resulted in reduced consumption of oil products and decreased demand for our vessels and services, which reduced vessel earnings. Additional slowdowns could have similar effects on our operating results and may limit our ability to expand our fleet.
Changes in the spot tanker market may result in significant fluctuations in the utilization of our vessels and our profitability.
During 2018 and 2017, we derived approximately 70.8% and 51.0%, respectively, of our net revenues from vessels operating in the spot tanker market, either directly or by means of participation in revenue sharing arrangements (or RSAs) (which includes vessels operating under full service lightering contracts and charters with an initial term of less than one year). Due to our involvement in the spot-charter market, declining spot rates in a given period generally will result in corresponding declines in our operating results for that period.

The spot-charter market is highly volatile and fluctuates based upon tanker and oil supply and demand. The successful operation of our vessels in the spot-charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to load cargo. Future spot rates may not be sufficient to enable our vessels trading in the spot tanker market to operate profitably or to provide sufficient cash flow to service our debt obligations.
The operation of a significant number of our tankers in RSAs could limit our earnings.
As of December 31, 2018, 29 of our owned and leased Suezmax tankers, ten of our owned and leased Aframax tankers, and eight of our owned and leased Long Range 2 (or LR2) product tankers operated in and generated revenues to us through participation in the Suezmax tanker, Aframax tanker and LR2 product tanker RSAs, which are owned and/or managed by one of our subsidiaries. Each RSA is designed to spread the costs and risks associated with commercial management of vessels and to share the net revenues earned by all of the vessels in the RSA. Although the net revenues are apportioned based on the actual earning days each vessel is available and the relative performance capabilities of each vessel, an RSA may include vessels that do not perform as well in actual operation as our vessels. As a result, our share of the net pool revenues may be less than what we could earn operating our vessels independently.
Our vessels operate in the highly competitive international tanker market.
The operation of oil tankers and transportation of crude oil and refined petroleum products are extremely competitive businesses. Competition arises primarily from other tanker owners, including major oil companies and independent tanker companies, some of which have substantially greater financial strength and capital than do we or Teekay Corporation. Competition for the transportation of oil and oil products can be intense and depends on price and the location, size, age, condition of the tanker and the acceptability of the tanker and its operators to the charterers. Our competitive position may erode over time.
Our operating results are subject to seasonal fluctuations.
Our tankers operate in markets that have historically exhibited seasonal variations in tanker demand and, therefore, in spot-charter rates. This seasonality may result in quarter-to-quarter volatility in our results of operations. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere but weaker in the summer months as a result of lower oil consumption in the northern hemisphere and refinery maintenance. In addition, unpredictable weather patterns during the winter months tend to disrupt vessel scheduling,

which historically has increased oil price volatility and oil trading activities in the winter months. As a result, revenues generated by the tankers in our fleet have historically been weaker during our fiscal quarters ended June 30 and September 30, and stronger in our fiscal quarters ended December 31 and March 31.

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

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

Economic downturns may affect our customers’ ability to charter our vessels and pay for our services and may adversely affect our business and results of operations.
Economic downturns in the global financial markets may lead to a decline in our customers’ operations or ability to pay for our services, which could result in decreased demand for our vessels and services. Our customers’ inability to pay could also result in their default on our current contracts and charters. A decline in the amount of services requested by our customers or their default on our contracts with them could have a material adverse effect on our business, financial condition and results of operations.
Exposure to currency exchange and interest rate fluctuations could result in fluctuations in our operating results.
Our primary economic environment is the international shipping market, which utilizes the U.S. Dollar as its functional currency. Consequently, virtually all of our revenues and the majority of our expenses are in U.S. Dollars. However, we incur certain voyage expenses, vessel operating expenses, and general and administrative expenses in foreign currencies, the most significant of which are the Singapore Dollar, British Pound, Euro and Canadian Dollar. This partial mismatch in revenues and expenses could lead to fluctuations in our net income due to changes in the value of the U.S. Dollar relative to other currencies.

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 service our debt. In addition, there is uncertainty as to the continued use of LIBOR in the future. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to be eliminated or to perform differently than in the past. The consequences of these developments cannot be entirely predicted but could include an increase in the cost of our variable rate indebtedness and obligations. From time to time, we use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt.

In addition, we are exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. For further information about our financial instruments at December 31, 2018, that are sensitive to changes in interest rates, please read "Item 11 - Quantitative and Qualitative Disclosures About Market Risk."
We may not be able to grow or to manage our growth effectively.
One of our principal strategies is to continue to grow by expanding our operations and adding vessels to our fleet. Our future growth will depend upon a number of factors, some of which are beyond our control. These factors include our ability to:

- identify suitable tankers or shipping companies for acquisitions or joint ventures;
- integrate successfully any acquired tankers or businesses with our existing operations; and
- obtain required financing for our existing and any new operations.

In addition, competition from other companies, many of which have significantly greater financial resources than do we or Teekay Corporation, may reduce our acquisition opportunities or cause us to pay higher prices. Our failure to effectively identify, purchase, develop and integrate any tankers or businesses could adversely affect our business, financial condition and results of operations.
We may not realize expected benefits from acquisitions and implementing our growth strategy through acquisitions may harm our financial condition and performance.
Any acquisition of a vessel or business, such as our acquisition of the ship-to-ship transfer business in July 2015 and Tanker Investments Ltd. (or TIL) in November 2017, may not be profitable at or after the time of acquisition and may not generate cash flows sufficient to justify the investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

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

- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with any vessels or businesses acquired; or
- incur other significant charges, such as impairment of intangible assets, asset devaluation or restructuring charges.

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

Over time, the value of our vessels may decline, which could adversely affect our ability to obtain financing or our operating results.
Vessel values for oil tankers can fluctuate substantially over time due to a number of different factors. Vessel values may decline from existing levels. If the operation of a tanker is not profitable, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a fair market value or the disposition of the vessel at a fair market value that is lower than its book value could result in a loss on its sale and adversely affect our results of operations and financial condition. As of December 31, 2018, two of our credit facilities and 14 of our obligations related to capital leases contain loan-to-value financial covenants tied to the value of the vessels that collateralize these credit facilities and the vessels related to the capital leases. A significant decline in the market value of these tankers may require us to pledge additional collateral to avoid a default under these credit facilities and obligations related to capital leases. We are required to maintain vessel value to outstanding loan principal balance ratios ranging from 75%-125%. At December 31, 2018, we were in compliance with these requirements. A significant decline in the market value of our tankers may prevent us from refinancing tankers with a similar amount of debt thereby requiring us to either reduce debt levels in facilities collateralized by the tankers or seek alternative financing structures.

In addition, if we determine at any time that a vessel’s future useful life and earnings require us to impair its value on our consolidated financial statements, we may need to recognize a significant charge against our earnings.
We will be required to make substantial capital expenditures should we decide to expand the size of our fleet. We generally will be required to make significant installment payments for any acquisitions of newbuilding vessels prior to their delivery and generation of revenue. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our financial leverage could increase or our shareholders’ ownership interest in us could be diluted.
We will be required to make substantial capital expenditures should we decide to increase the size of our fleet, including acquiring tankers from third parties. Our acquisitions may also include newbuildings. We generally will be required to make installment payments on any newbuildings prior to their delivery. We typically pay 10% to 20% of the purchase price of a tanker upon signing the purchase contract, even though delivery of the completed vessel does not occur until much later (approximately two to three years from the order). To fund expansion capital expenditures, we may be required to use cash balances or cash from operations, incur borrowings or raise capital through the incurrence of debt or issuance of additional equity securities. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering, as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain funds for capital expenditures could have a material adverse effect on our business, results of operations and financial condition. Even if we are successful in obtaining the necessary funds, incurring additional debt may significantly increase our interest expense and financial leverage, which could limit our financial flexibility and ability to pursue other business opportunities. In addition, issuing additional equity securities may result in significant shareholder ownership dilution and would increase the aggregate amount of cash required to pay quarterly dividends.
An increase in operating costs could adversely affect our cash flows and financial condition.
The levels of vessel operating expenses depend upon a variety of factors, many of which are beyond our control. Some of these costs may increase in the future, such increases would decrease our earnings and adversely affect our cash flows and financial condition.
Financing agreements containing operating and financial restrictions may restrict our business and financing activities.
The operating and financial restrictions and covenants in our revolving credit facilities, term loans, lease obligations and in any of our future financing agreements could adversely affect our ability to finance future operations or capital needs or to pursue and expand our business activities. For example, these financing arrangements may restrict our ability to:

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem our capital stock;

- prepay certain debt;
- issue certain preferred shares or similar equity securities;
- make loans and investments;
- enter into a new line of business;
- incur or permit certain liens to exist;
- enter into transactions with affiliates;
- create unrestricted subsidiaries;
- transfer, sell, convey or otherwise dispose of assets;
- make certain acquisitions and investments;
- enter into agreements restricting our subsidiaries' ability to pay dividends; and
- consolidate, merge or sell all or substantially all of our assets.

In addition, certain of our debt agreements require, us to comply with certain financial covenants. Our ability to comply with covenants and restrictions contained in debt instruments and lease obligations may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, we may fail to comply with these covenants. In addition, two of our term loans are guaranteed by Teekay and contain certain financial covenants. Teekay's ability to comply with the covenants of these term loans will affect our compliance with the covenants. If we breach any of the restrictions, covenants, ratios or tests in our financing agreements or indentures, our obligations may become immediately due and payable, and the lenders' commitment under our credit facilities, if any, to make further loans may terminate. This could lead to cross-defaults under our other financing agreements and result in obligations becoming due and commitments being terminated under such agreements. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing related loans.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and all of our assets are located outside of the United States. In addition, a majority of our directors and officers are non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible to bring an action against us or against these individuals in the United States. Even if successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict the enforcement of a judgment against our assets or our directors and officers.

As a Marshall Islands corporation with our headquarters in Bermuda, and with a majority of our subsidiaries being Marshall Islands entities and also having subsidiaries in other offshore jurisdictions, our operations may be subject to economic substance requirements of the European Union, which could harm our business.

Finance ministers of the EU rate jurisdictions for tax transparency, governance, real economic activity and corporate tax rate. Countries that do not adequately cooperate with the finance ministers are put on a "grey list" or a "blacklist". Various countries, including the Republic of the Marshall Islands and Bermuda, are currently on the blacklist.

EU member states have agreed upon a set of measures, which they can choose to apply against the listed countries, including increased monitoring and audits, withholding taxes, special documentation requirements and anti-abuse provisions. The European Commission has stated it will continue to support member states' efforts to develop a more coordinated approach to sanctions for the listed countries in 2019. EU legislation prohibits EU funds from being channelled or transited through entities in countries on the blacklist.

We are a Marshall Islands corporation with our headquarters in Bermuda. A majority of our subsidiaries are Marshall Islands entities and many of our subsidiaries are either organized or registered in Bermuda. It is difficult to determine how the EU blacklisting of these jurisdictions will affect our business. These jurisdictions have enacted or may enact economic substance laws and regulations with which we may be obligated to comply. We understand that recently-adopted Bermudian legislation requires each Bermudian registered entity to maintain a substantial economic presence in Bermuda and provides that a registered entity that carries on a relevant activity may comply with the economic substance requirements if (i) it is directed and managed in Bermuda, (ii) its core income-generating activities are undertaken in Bermuda with respect to the relevant activity, (iii) it maintains adequate physical presence in Bermuda, (iv) it has adequate full-time employees in Bermuda with suitable qualifications, and (v) it incurs adequate operating expenditures in Bermuda in relation to the relevant activity. We do not know what actions the Marshall Islands may take, if any, to remove itself from the list; whether the EU will remove the Marshall Islands or Bermuda from the list; how quickly the EU would react to any changes in legislation of the Marshall Islands, Bermuda or other applicable jurisdictions; or how EU banks or other counterparties will react while we or any of our subsidiaries remain as entities organized and existing or registered under the laws of blacklisted countries. The effect of the EU blacklist, and any noncompliance by us with any legislation adopted by applicable countries to achieve removal from the list, could have a material adverse effect on our business, financial condition and operating results.

Our substantial debt levels and obligations related to capital leases may limit our flexibility in obtaining additional financing, pursuing other business opportunities and paying dividends.

As of December 31, 2018, our long-term debt was approximately $742.0 million and an additional $11.8 million was available to us under our revolving credit facilities, and our obligations related to capital leases was approximately $375.3 million. In addition, in late 2018, one of our subsidiaries entered into a working capital loan facility, which provides up to $40 million of available aggregate borrowings with the option to increase the facility up to an additional $15.0 million. As at December 31, 2018, no amounts had been drawn under this facility. We will continue to have the ability to incur additional debt, subject to limitations in our revolving credit facilities and working capital loan facility. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired, or such financing may not be available on favorable terms;
- we will need a substantial portion of our cash flow to make principal and interest payments on our debt and lease payments on our obligations related to capital leases, reducing the funds that would otherwise be available for operations, business opportunities and dividends to our shareholders;
- our debt level will make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally; and
- our debt level may limit our flexibility in responding to changing business and economic conditions.

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

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

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

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

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

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

Terrorist attacks, and the current or future conflicts in the Middle East, South East Asia, West Africa (Nigeria), Libya and elsewhere, and other current and future conflicts and political change, may adversely affect our business, operating results, financial condition, and ability to raise capital and fund future growth. Continuing hostilities in the Middle East especially among Qatar, Saudi Arabia, the United Arab Emirates, Yemen and elsewhere may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of oil production and distribution, which could result in reduced demand for our services and have an adverse impact on our operations and our ability to conduct business.

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

Acts of piracy on ocean-going vessels continue to be a risk, which could adversely affect our business.

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

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

Because our operations and the operations of our customers are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We derive some of our revenues from shipping oil from politically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping. Hostilities or other political instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to pay dividends. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries to which we trade may limit trading activities with those countries, which could also harm our business and ability to pay dividends. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flows and financial results.

A cyber attack could materially disrupt our business.

We rely on information technology systems and networks in our operations and the administration of our business. Cyber-attacks have increased in number and sophistication in recent years. Our operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to unauthorized release of information or alteration of information on our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business and results of operations.

Our failure to comply with data privacy laws could damage our customer relationships and expose us to litigation risks and potential fines.

Data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services and continue to develop in ways which we cannot predict, including with respect to evolving technologies such as cloud computing. The European Union has adopted the General Data Privacy Regulation (or GDPR), a comprehensive legal framework to govern data collection, use and sharing and related consumer privacy rights which took effect in May 2018. The GDPR includes significant penalties for non-compliance. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace, which could have a material adverse effect on our business, financial condition and results of operations.

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

The United States has imposed sanctions on several countries or regions such as Cuba, North Korea, Syria and the Crimea region of the Ukraine. The United States and the European Union (or EU) also had imposed sanctions on Iran. The EU lifted these sanctions in January 2016. At that time, the U.S. lifted its secondary sanctions on Iran, which applied to foreign persons, but has retained its primary sanctions, which apply to U.S. entities and their foreign subsidiaries. In the past, conventional oil tankers owned or chartered-in by us, or third-party vessels participating in RSAs from which we derive revenue, made limited port calls to those countries for the loading and discharging of oil products. Those port calls did not violate U.S. or EU sanctions at the time and we intend to maintain our compliance with all U.S. and EU sanctions. In addition, we have no future contracted loadings or discharges in any of those countries and intend not to enter into voyage charter contracts for the transport of oil or gas to or from Iran or Syria. We believe that our compliance with these sanctions and our lack of any future port calls to those countries does not and will not adversely impact our revenues, because port calls to these countries have never accounted for any material amount of our revenues. However, some investors might decide not to invest in us simply because we have previously called on, or through our participation in RSAs have previously received revenue from calls on, ports in these sanctioned countries. Any such investor reaction could adversely affect the market for our common shares.

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

Our vessels, crew and cargoes are at risk of being damaged, injured or lost because of events such as:

- marine disasters;
- bad weather or natural disasters;
- mechanical or electrical failures;
- grounding, capsizing, fire, explosions and collisions;

- piracy (hijacking and kidnapping);
- cyber attack;
- human error; and
- war and terrorism.

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

- death or injury to persons, loss of property or damage to the environment and natural resources;
- delays in the delivery of cargo;

- loss of revenues from charters;
- liabilities or costs to recover any spilled oil or other petroleum products and to restore the eco-system affected by the spill;
- governmental fines, penalties or restrictions on conducting business;
- higher insurance rates; and
- damage to our reputation and customer relationships generally.

Any of these events could have a material adverse effect on our business, financial condition and operating results. In addition, any damage to, or environmental contamination involving, oil production facilities serviced by our vessels could result in the suspension or curtailment of operations by our customer, which would in turn result in loss of revenues.

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

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

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

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

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

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

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

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

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

Pursuant to the terms of the Management Agreement, our Manager provides various services to us. Our operational success and ability to execute our growth strategy depend significantly upon the satisfactory performance of these services by our Manager. Our business may be harmed if our Manager fails to perform these services satisfactorily, if it stops providing these services to us or if it terminates the Management Agreement, as it is entitled to do under certain circumstances. The circumstances under which we are able to terminate the Management Agreement are limited and do not include mere dissatisfaction with our Manager's performance. In addition, upon any termination of the Management Agreement, we may lose our ability to benefit from economies of scale in purchasing supplies and other advantages that we believe our relationship with Teekay Corporation provides. If Teekay Corporation suffers material damage to its reputation or relationships, it may harm our ability to:

- maximize revenues of our tankers included in the RSAs;
- acquire new tankers or obtain new time charters;
- renew existing time charters upon their expiration;
- successfully interact with shipyards during periods of shipyard construction constraints;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with suppliers and other third parties.

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

Teekay Corporation may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business, and the cost of attracting and retaining such personnel may increase.

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

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

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

We must remain in compliance with the New York Stock Exchange's requirements for the continued listing of our Class A common stock on the exchange.

Our Class A common stock is listed on the New York Stock Exchange (or NYSE) under the symbol "TNK". If we fail to comply with the NYSE's listing requirement that the average closing price of our Class A common stock over a consecutive 30-day trading period be not less than $1.00, this will result in our Class A common stock being delisted from the NYSE if we are not able to resume compliance with the NYSE's listing requirements within the applicable cure period. Any such delisting would negatively impact the Company and holders of our Class A common stock, including due to the resulting potential decreased price, liquidity and trading of our Class A common stock, limited availability of price quotations and reduced news and analyst coverage. These developments may also require brokers trading in our Class A common stock to adhere to more stringent rules and may limit our ability to raise capital by issuing additional shares of Class A common stock in the future. We actively monitor the price of our Class A common stock and will consider available options, including, among others, a reverse stock split, to maintain compliance with the continued listing standards of the NYSE. If it is necessary for us to undertake a reverse stock split, the number of shares available on the public market following such reverse stock split will be reduced significantly, which may affect the volume and liquidity of our Class A common stock. Delisting may adversely impact the perception of our financial condition and harm our reputation with investors and other third parties. In addition, any perceived decrease in value of employee equity incentive awards may reduce their effectiveness in encouraging performance and retention.

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

In addition, our rights to terminate the Management Agreement are limited. Even if we are not satisfied with the Manager's efforts in managing our business, unless our Manager materially breaches the agreement or experiences certain bankruptcy or change of control events, we have only a limited right to terminate the agreement and may not be able to terminate the agreement until December 31, 2022, the end of the initial 15-year term. If we elect to terminate the Management Agreement at the end of the initial term or at the end of any subsequent renewal term, our Manager will receive a termination fee, which may be substantial.
Our Manager could receive a performance fee which is contingent on our results of operations and financial condition.
If Gross Cash Available for Distribution (as defined in the Management Agreement) for a given fiscal year exceeds $3.20 per share of our common stock (subject to adjustment for stock dividends, splits, combinations and similar events, and based on the weighted-average number of shares outstanding for the year) (or the Incentive Threshold), our Manager generally will be entitled to payment of a performance fee equal to 20% of all Gross Cash Available for Distribution for such year in excess of the Incentive Threshold. Although the performance fee is payable on an annual basis, we accrue any amounts expected to be payable in respect of the performance fee on a quarterly basis. Gross Cash Available for Distribution generally represents the distributable cash flows that we generate from operations.
Our Manager will be entitled to a fee upon any sale of any vessels we acquired as part of the TIL acquisition.

In January 2014, TIL entered into a long-term management agreement with our Manager, pursuant to which our Manager provides to TIL certain services. The management agreement, which was waived in part by the Manager but otherwise remains in effect following our acquisition of TIL in 2017, requires us to pay our Manager a fee equal to 1.0% of the aggregate consideration payable to us upon the sale of any vessels which were owned by TIL subsidiaries as of the date of the TIL merger.
Many seafaring employees are covered by collective bargaining agreements, and the failure to renew those agreements or any future labor agreements may disrupt operations and adversely affect our cash flows.
A significant portion of Teekay Corporation's seafarers that crew our vessels are employed under collective bargaining agreements. Teekay Corporation may become subject to additional labor agreements in the future. Teekay Corporation may suffer labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. The collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Salaries are typically renegotiated annually or biannually for seafarers. Although these negotiations have not caused labor disruptions in the past, any labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition.
Our executive officers and directors and certain officers and directors of Teekay Corporation have conflicts of interest and limited fiduciary and contractual duties, which may permit them to favor interests of Teekay Corporation and its other affiliates above our interests and those of our Class A common shareholders.
Conflicts of interest may arise between Teekay Corporation and its other affiliates, on the one hand, and us and our shareholders, on the other hand. As a result of these conflicts, Teekay Corporation may favor its own interests and the interests of its other affiliates over our interests and those of our shareholders. These conflicts include, among others,

the following situations:

- our Chief Executive Officer and Chief Financial Officer and four of our current directors or expected nominees for election as directors at our 2019 annual meeting of shareholders also serve as officers or directors of Teekay Corporation, and we have limited their fiduciary duties regarding corporate opportunities that may be attractive to both Teekay Corporation and us;
- our Manager, a subsidiary of Teekay Corporation, advises our Board of Directors about the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional common stock and cash reserves, each of which can affect our ability to pay dividends to our shareholders and the amount of the performance fee payable to our Manager under the Management Agreement;
- our executive officers and those of our Manager do not spend all their time on matters related to our business; and
- our Manager will advise us of costs incurred by it and its affiliates that it believes are reimbursable by us.

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

Our officers and directors have fiduciary duties to manage our business in a manner beneficial to us and our shareholders. However, our Chief Executive Officer and our Chief Financial Officer and four of our current directors or nominees for election as directors at our 2019 annual meeting of shareholders also serve as officers or directors of Teekay Corporation, and as a result, have fiduciary duties to manage the business of Teekay Corporation and its affiliates in a manner beneficial to such entities and their shareholders or partners, as the case may be. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Teekay Corporation or its affiliates, on the one hand, and us, on the other hand, are in conflict. The resolution of these conflicts may not always be in our best interest or that of our shareholders.

Our U.S. Gulf lightering business competes with alternative methods of delivering crude oil to ports, which may limit our earnings in this market.

Our U.S. Gulf lightering business faces competition from alternative methods of delivering crude oil shipments to port, including offshore offloading facilities. While we believe that lightering offers advantages over alternative methods of delivering crude oil to U.S. Gulf ports, our lightering revenues may be limited due to the availability of alternative methods.

Our full service lightering operations are subject to specific risks that could lead to accidents, oil spills or property damage.

Lightering is subject to specific risks arising from the process of safely bringing two large moving tankers next to each other and mooring them for lightering operations, in which oil, refined petroleum products or other cargoes are transferred from one ship to the other. These operations require a high degree of expertise and present a higher risk of collision or spill compared to when docking a vessel or transferring cargo at port. Lightering operations, similar to marine transportation in general, are also subject to risks due to events such as mechanical failures, human error, and weather conditions.

Tax Risks

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

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

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

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

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

We are subject to taxes, which reduce our operating results.

We or our subsidiaries are subject to tax in certain jurisdictions in which we or our subsidiaries are organized own assets or have operations, which reduces our operating results. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing our operating results. In addition, changes in our operations or ownership could result in additional tax being imposed on us or on our subsidiaries in jurisdictions in which operations are conducted. For example, if Teekay Tankers Ltd. was not able to satisfy the requirements of the exemption from U.S. taxation under Section 883 of the Code, we would be subject to U.S. federal income tax on shipping income attributable to our transportation of cargoes to or from the United States, the amount of which is not within our complete control. Also, jurisdictions in which we or our subsidiaries are organized, own assets or have operations may change their tax laws, or we may enter into new business transactions relating to such jurisdictions, which could result in increased tax liability and reduce our operating results. Please read Item 4 - Information on the Company—Taxation of the Company.

Item 4. Information on the Company

A. History and Development of the Company

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

Our conventional fleet size has increased from nine owned Aframax tankers in 2007 to 56 owned and leased conventional tankers, three in-chartered vessels and one jointly-owned Very Large Crude Carrier (or VLCC) as of December 31, 2018. The capacity of our conventional tanker fleet has risen from approximately 980,000 deadweight tonnes (or dwt) in 2007 to approximately 7,918,000 dwt as of December 31, 2018. Over the last five years, we have acquired 18 conventional tankers through the merger with Tanker Investments Ltd. (or TIL), 17 conventional tankers from external parties and two conventional tankers from TOO. In March 2014, we also assumed ownership of two VLCCs that previously served as collateral under term loans we made to a third party. We subsequently sold those two VLCCs in May 2014. We sold three Aframax tankers and two Suezmax tankers in 2017, two Medium Range (or MR) tankers in 2016 and one MR tanker in 2015. Please read Item 18 – Financial Statements: Note 20 - Vessel Sales. We also completed two sale-leaseback financing transactions in 2018, relating to eight Aframax tankers, one Suezmax tanker and one LR2 product tanker, and a sale-leaseback financing transaction in 2017 relating to four of our Suezmax tankers. Please read Item 18 - Financial Statements: Note 11 - Leases.

In November 2017, we completed a merger with TIL by acquiring all of the remaining 27.0 million issued and outstanding common shares of TIL, by way of a share-for-share exchange resulting in TIL becoming a wholly-owned subsidiary. At the time of the merger, TIL owned a modern fleet of ten Suezmax tankers, six Aframax tankers and two LR2 product tankers. Please read Item 18 - Financial Statements: Note 23 - Acquisition of Tanker Investments Ltd.

In May 2017, we completed the acquisition from Teekay Holdings Ltd., a wholly-owned subsidiary of Teekay Corporation, of the remaining 50% interest in Teekay Tanker Operations Ltd. (or TTOL), which owns conventional tanker commercial management and technical management operations and directly administers four commercially managed tanker RSAs. Please read Item 18 - Financial Statements: Note 7 - Investments in and advances to Equity-Accounted for Investments.

In July 2015, we acquired the ship-to-ship transfer business (or TMS) from a company jointly owned by Teekay Corporation and a Norway-based marine transportation company, I.M. Skaugen SE. TMS provides a full suite of ship-to-ship transfer services in the oil, gas and dry bulk industries. In addition to full service lightering and lightering support, TMS also provides consultancy and LNG terminal management services. This acquisition established us as a global company in the ship-to-ship transfer business. As of December 31, 2018, TMS operated a fleet of six ship-to-ship support vessels, including three owned and three chartered-in vessels.

From time to time, we also charter-in vessels, typically from third parties as part of our chartering strategy. Please read “Business Strategies” below in this Item. Most of our acquisitions were financed by a combination of utilizing the net proceeds from public equity offerings or private placements, as well as raising new debt, the assumption of existing debt, drawing on our revolving credit facility, and using our available working capital.

We incorporated on October 17, 2007 under the laws of the Republic of The Marshall Islands as Teekay Tankers Ltd. and maintain our principal executive offices at 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530.

The SEC maintains an Internet site at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our website is www.teekay.com/business/tankers. The information contained on our website is not part of this annual report.

B. Business Overview

Our primary business is to own oil and product tankers and we employ a chartering strategy that seeks to capture upside opportunities in the tanker spot market while using fixed-rate time charters to reduce downside risks. During 2015, we expanded our service offerings to our customers through the purchase of our ship-to-ship transfer business that provides full service lightering as well as lightering support services and consultancy and LNG terminal management services. This acquisition, which is adjacent to our core competencies, along with our existing conventional tanker commercial management and technical management operations, is expected to improve our ability to manage the cyclicality of the tanker market through the less volatile cash flows generated by these business areas. Historically, the tanker industry has experienced volatility in profitability due to changes in the supply of, and demand for, tanker capacity. Tanker supply and demand are each influenced by several factors beyond our control.

Teekay Corporation, which formed us in 2007, is a leading provider of marine services to the global oil and natural gas industries, and together with its subsidiaries, is one of the world's largest operator of medium-sized oil tankers. We believe we benefit from Teekay Corporation's expertise, relationships and reputation as we operate our fleet and pursue growth opportunities. We have acquired a portion of our current operating fleet from Teekay Corporation at various times since our inception, and we anticipate additional opportunities to expand our fleet through acquisitions of tankers from third parties. In addition, Teekay Corporation's day-to-day focus on cost control is applied to our operations. Teekay Corporation and two other shipping companies participate in a purchasing alliance, Teekay Bergesen Worldwide, which leverages the purchasing power of the combined fleets, mainly in such commodity areas as lube oils, paints and other chemicals. Through our Manager, we benefit from this purchasing alliance.

Effective May 2018, we eliminated the payment of our minimum quarterly dividend of $0.03 per share in order to preserve liquidity during the cyclical downturn of the tanker spot market. Under the revised dividend policy, quarterly dividends are expected to range from 30% to 50% of our quarterly adjusted net income, subject to reserves our Board of Directors may determine are necessary for the prudent operations of the company. Dividend payments are subject to the discretion of our Board of Directors, and the policy remains subject to change. Adjusted net (loss) income is a non-GAAP measure which excludes specific items affecting net (loss) income that are typically excluded by securities analysts in their published estimates of our financial results. Prior to this change, our dividend policy was to distribute 30% to 50% of our quarterly adjusted net income to our shareholders, with a minimum quarterly dividend of $0.03 per share ($0.12 per share annually). For additional information about our dividend policy, please read Item 8 – Financial Information: Dividend Policy.

Under the supervision of our executive officers and Board of Directors, our operations are conducted in part by our subsidiaries who receive services from our Manager and its affiliates. In addition, our Manager provides various services to us under our long-term management agreement (the Management Agreement). Commencing October 1, 2018, we elected to provide our own commercial and technical services, and prior to this date, our Manager provided these services to us as required under the Management Agreement, which it did by subcontracting such services from our subsidiary TTOL and its affiliates. We pay our Manager certain fees and reimbursements for its services. In order to provide our Manager with an incentive to improve our operation and financial conditions, we have agreed to pay a performance fee to our Manager under certain circumstances, in addition to the basic fees provided in the Management Agreement. Please read Item 7 – Major Shareholders and Related Party Transactions: Related Party Transactions—Management Agreement for additional information about the Management Agreement.

In October 2018, we established a new RSA structure under our wholly-owned subsidiary, Teekay Tankers Chartering Pte. Ltd. (or TTCL), and subsequently began transitioning our RSA activities from TTOL to TTCL.

We employ our chartering strategy based on our outlook for freight rates, oil tanker market conditions and global economic conditions. Please refer to the “Our Fleet” table below. We employ our vessels on fixed rate time-charter out contracts and in various RSAs which are managed by TTCL and subsidiaries of TTOL (collectively, the Pool Managers), both of which employ vessels on the spot market. By employing some of our vessels in these RSAs, we believe we benefit from economies of scale of a larger fleet, including higher vessel utilization and daily revenues.

Our Fleet

The following table summarizes our fleet as at December 31, 2018:

	Owned and Leased Vessels	Chartered-in Vessels	Total
Fixed-rate:			
Suezmax Tanker	1	—	1
Aframax Tanker	1	—	1
Total Fixed-Rate Fleet (1)	2	—	2
Spot-rate:			
Suezmax Tankers	29	—	29
Aframax Tankers	16	3	19
Long Range 2 Product Tankers	9	—	9
VLCC Tanker (2)	1	—	1

Total Spot Fleet (3)	55	3	58
Total Conventional Fleet	57	3	60
Ship-to-Ship Support Vessels	3	3	6
Total Teekay Tankers Fleet	60	6	66

(1) Both time-charter out contracts are scheduled to expire in 2019.

(2) We own one VLCC through a 50/50 joint venture with Wah Kwong Maritime Transport Holdings Limited (please refer to Item 18 - Financial Statements: Note 7 - Investments in and advances to Equity-Accounted for Investments).

(3) A total of 47 of our owned and leased vessels operated in the spot market in RSAs, which are managed by the Pool Managers. As at December 31, 2018, the RSAs in which we participate were comprised of a total of 33 Suezmax tankers, 35 Aframax tankers, and ten LR2 product tankers (of which eight LR2 tankers were cross-trading in the Aframax RSA), including vessels owned by other members of the RSAs.

The following table provides additional information about our owned and leased Suezmax oil tankers as of December 31, 2018, all of which are Bahamian-flagged.

Vessel	Capacity (dwt)	Built	Employment	Daily Rate	Expiration of Charter
Ashkini Spirit	165,200	2003	RSA	—	—
Aspen Spirit	156,800	2009	RSA	—	—
Athens Spirit	158,500	2012	RSA	—	—
Atlanta Spirit	158,700	2011	RSA	—	—
Baker Spirit	156,900	2009	RSA	—	—
Barcelona Spirit	158,500	2011	RSA	—	—
Beijing Spirit	156,500	2010	RSA	—	—
Cascade Spirit	156,900	2009	RSA	—	—
Copper Spirit	156,800	2010	RSA	—	—
Dilong Spirit	159,000	2009	RSA	—	—
Godavari Spirit	159,100	2004	RSA	—	—
Iskmati Spirit	165,300	2003	RSA	—	—
Jiaolong Spirit	159,000	2009	RSA	—	—
Kaveri Spirit	159,100	2004	RSA	—	—
London Spirit	158,500	2011	RSA	—	—
Los Angeles Spirit	159,200	2007	RSA	—	—
Montreal Spirit	150,000	2006	Time charter	$17,500	Aug-19
Moscow Spirit	156,500	2010	RSA	—	—
Narmada Spirit	159,200	2003	RSA	—	—
Pinnacle Spirit	160,400	2008	RSA	—	—
Rio Spirit	158,400	2013	RSA	—	—
Seoul Spirit	160,000	2005	RSA	—	—
Shenlong Spirit	159,000	2009	RSA	—	—
Summit Spirit	160,500	2008	RSA	—	—
Sydney Spirit	158,500	2012	RSA	—	—
Tahoe Spirit	156,900	2010	RSA	—	—
Tianlong Spirit	159,000	2009	RSA	—	—
Tokyo Spirit	150,000	2006	RSA	—	—
Vail Spirit	157,000	2009	RSA	—	—
Zenith Spirit	160,500	2009	RSA	—	—
Total Capacity	4,749,900				

The following table provides additional information about our owned and leased Aframax oil tankers as of December 31, 2018, all of which are Bahamian-flagged.

Vessel	Capacity (dwt)	Built	Employment	Daily Rate	Expiration of Charter
Americas Spirit	111,900	2003	Spot	—	—
Australian Spirit	111,900	2004	RSA	—	—
Axel Spirit	115,400	2004	RSA	—	—
Blackcomb Spirit	109,000	2010	Spot	—	—
Emerald Spirit	109,100	2009	Spot	—	—
Erik Spirit	115,500	2005	RSA	—	—
Esther Spirit (1)	115,400	2004	RSA	—	—
Everest Spirit (1)	115,000	2004	Time charter	$25,000	Apr-19
Explorer Spirit	105,800	2008	Spot	—	—
Garibaldi Spirit	109,000	2009	RSA	—	—
Helga Spirit	115,500	2005	RSA	—	—
Matterhorn Spirit	114,800	2005	RSA	—	—
Navigator Spirit	105,800	2008	Spot	—	—
Peak Spirit	104,600	2011	RSA	—	—
Tarbet Spirit	107,500	2009	Spot	—	—
Whistler Spirit	109,100	2010	RSA	—	—
Yamato Spirit	107,600	2008	RSA	—	—
Total Capacity	1,882,900				

(1) The Aframax tanker Esther Spirit replaced the Everest Spirit in January 2019 for the remaining period of the time-charter out contract.

The following table provides additional information about our owned and leased LR2 product tankers as of December 31, 2018, seven of which are Bahamian-flagged and two of which are Marshall Islands-flagged.

Vessel	Capacity (dwt)	Built	Employment	Daily Rate	Expiration of Charter
Donegal Spirit	105,600	2006	RSA	—	—
Galway Spirit	105,600	2007	RSA	—	—
Hovden Spirit	105,300	2012	RSA	—	—
Leyte Spirit	109,700	2011	RSA	—	—
Limerick Spirit	105,600	2007	RSA	—	—
Luzon Spirit	109,600	2011	RSA	—	—
Sebarok Spirit	109,600	2011	RSA	—	—
Seletar Spirit	109,000	2010	Spot	—	—
Trysil Spirit	105,300	2012	RSA	—	—
Total Capacity	965,300				

The following table provides additional information about our VLCC oil tanker as of December 31, 2018, which is Hong Kong-flagged.

Vessel	Capacity (dwt)	Built	Employment	Daily Rate	Expiration of Charter
Hong Kong Spirit (1)	319,000	2013	Pool	—	—

(1)

The VLCC vessel, Hong Kong Spirit, is owned through a 50/50 joint venture and is employed in a spot market pool managed by a third party.

Please read Note 10 - Long-Term Debt and Note 11 - Leases included in Item 18 – Financial Statements included in this Annual Report for information with respect to major encumbrances against our vessels.

Business Strategies

Our primary business strategies include the following:

- Expand our fleet through accretive acquisitions. Since our initial public offering, we have purchased 21 conventional tankers from Teekay Corporation, 18 conventional tankers resulting from the merger with TIL, 17 conventional tankers from third parties and two conventional tankers from TOO. In the future, we anticipate growing our fleet primarily through acquisitions of tankers from third parties, by securing additional in-chartered vessels and by ordering newbuildings.
- Tactically manage our mix of spot, charter, lightering, and LNG terminal management and consultancy contracts. We employ a chartering strategy that seeks to capture upside opportunities in the spot market while using fixed-rate contracts to reduce downside risks. We believe that our experience operating through cycles in the tanker spot market will assist us in employing this strategy and seeking to maximize operating results. In addition, we expect that the July 2015 acquisition of TMS will provide stable cash flow, to partially offset volatility in the tanker market, through global ship-to-ship support services, full service lightering, and LNG terminal management and consultancy services.
- Increase cash flow by participating in RSAs. We believe that the cash flow we derive over time from operating a significant number of our vessels in the RSAs together with third party vessels exceeds the amount we would otherwise derive by operating these vessels outside of the RSAs due to higher vessel utilization and daily revenues. We also derive RSA and vessel management income through the operations of the Pool Managers. We seek to increase this fee income by increasing the number of vessels participating in the applicable RSAs.
- Provide superior customer service by maintaining high reliability, safety, environmental and quality standards. We believe that energy companies and oil traders seek transportation partners that have a reputation for high reliability, safety, environmental and quality standards. We leverage our reputation and operational expertise to further expand these relationships with consistent delivery of superior customer service through our Manager.

Revenue Sharing Arrangements

We and certain third party vessel owners have entered into Suezmax RSA, Aframax RSA and Taurus LR2 RSA agreements managed by our subsidiaries and pursuant to which we have agreed to include in the RSAs certain qualifying Suezmax or Aframax crude tankers or certain qualifying LR2 product tankers, that are employed and operate in the spot market or pursuant to time charters of less than one year. Teekay Offshore Partners L.P. is a party to some of the RSAs. As of December 31, 2018, the Suezmax RSAs consisted of 33 Suezmax tankers (including 29 of our owned and leased tankers), the Aframax RSAs consisted of 35 Aframax tankers (including ten of our owned and leased tankers and six of our owned and leased LR2 product tankers which are commercially managed by and cross trading from the Taurus LR2 RSA) and the Taurus LR2 RSA consisted of 10 LR2 product tankers (including eight of our owned and leased LR2 product tankers). Eight LR2 product tankers have been deployed into the Aframax RSA.

A participating tanker will no longer participate in the applicable RSAs if it becomes subject to a time charter with a term exceeding one year, unless otherwise agreed by all other participants for the applicable RSA, or if the tanker suffers an actual or constructive total loss or is sold or becomes controlled by a person who is not an affiliate of a party to the applicable RSA agreements.

Each RSA provides a revenue sharing mechanism whereby aggregate revenues and related expenses of the RSA are distributed to RSA participants based on an allocation formula. Revenues generated by vessels operating in the RSA less voyage expenses (such as fuel and port charges) incurred by these vessels and other applicable expenses are pooled and allocated according to a specified weighting system that recognizes each vessel’s earnings capability based on its characteristics, speed and bunker consumption, as well as actual on-hire performance. The allocation for each vessel participating in the RSA is established based on its characteristics and historical consumption data. Payments based on accrued earnings, with certain adjustments, subject to available cash flow applicable to each vessel are made on a monthly basis to RSA participants. Each vessel's earnings capability, that established its distribution weighting, is adjusted every six months based on current data.

Our subsidiaries provide commercial management services for vessels participating in the RSA and otherwise administer the RSAs in exchange for fees consisting of a per vessel per day fee and a percentage of the gross revenues fee attributable to the participant's vessels.

An RSA participant may withdraw from the RSA upon at least 90 days' notice and shall cease to participate in the RSA if, among other things, it materially breaches the RSA agreement and fails to resolve the breach within a specified cure period or experiences certain bankruptcy events.

Our Chartering Strategy and Participation in the Vessel Revenue Sharing Arrangements

Chartering Strategy. We operate our vessels in both the spot market and under time charters of varying lengths in an effort to maximize cash flow from our vessels based on our outlook for freight rates, oil tanker market conditions and global economic conditions. As of December 31, 2018, a total of 54 of our owned and leased vessels and three time-chartered in vessels operated in the spot market through participation in RSAs or on spot voyage charters. Twenty-nine of our owned and leased vessels operated in the Suezmax RSAs, ten of our owned and leased vessels and one time-chartered in vessel operated in the Aframax RSAs, and eight of our owned and leased vessels operated in the Taurus LR2 RSAs. In addition, seven of our owned and leased vessels and two time-chartered in vessels operated in the spot market on voyage charters. As of December 31, 2018, two of our owned vessels operated under fixed-rate time-charter contracts. Our mix of vessels trading in the spot market, providing lightering services in the U.S. Gulf (or USG), or subject to fixed-rate time charters will change from time to time. We also may seek to hedge our spot exposure through the use of freight forward agreements or other financial instruments.

Likewise, the managers of the RSAs in which we participate may, with our approval, enter into fixed-rate time charters for vessels we include in those RSAs, thereby decreasing spot-rate exposure without withdrawing the vessels from the RSAs.

Vessel Revenue Sharing Arrangements. Under the RSAs, the aggregate revenues generated by the applicable RSAs are distributed to RSA members, including us, pursuant to a pre-arranged weighting system based on actual earnings days each vessel is available during the applicable period and on each vessel's earnings capability based on its characteristics, speed and bunker consumption. The allocation for each vessel participating in the RSA is established based on observations and historical consumption and performance measures of the individual vessel. Payments based on net cash flow applicable to each tanker are made on a monthly basis to RSA participants and adjusted at standard intervals determined by each RSA based on the weighting system. We have agreed with the respective RSA managers and RSA participants to include certain of our vessels trading on voyage charters into the RSAs assuming the vessel meets the respective RSA criteria. For example, our Suezmax tankers that are operating on voyage charters with terms of less than one year are included in the Suezmax RSAs. Likewise, certain Aframax tankers and LR2 tankers on voyage charters with terms of one year or less participate in the Aframax RSAs and the Taurus LR2 RSAs, respectively.

Voyage Charters. Tankers operating in the spot market typically are chartered for a single voyage, which may last up to several weeks. Spot market revenues may generate increased profit margins during times when tanker rates are increasing, while tankers operating under fixed-rate time charters generally provide more predictable cash flows without exposure to the variable expenses such as port charges and bunkers. Under a typical voyage charter in the spot market, the shipowner is paid on the basis of moving cargo from a loading port to a discharge port. The shipowner is responsible for paying both vessel operating costs and voyage expenses, and the charterer is responsible for any delay at the loading or discharging ports. Voyage expenses are all expenses attributable to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Vessel operating expenses are incurred regardless of particular voyage details and include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. When the vessel is “off hire,” or not available for service, the vessel is unavailable to complete new voyage charters until the off hire is finalized and the vessel becomes available again for service. In addition, if the vessel is “off hire” while trading in a commercial RSA, the vessel will have those off hire days deducted from its monthly calculation of available days for the purpose of RSA distributions. Under a voyage charter, the shipowner is generally required, among other things, to keep the vessel seaworthy, to crew and maintain the vessel and to comply with applicable regulations.

Time Charters. A time charter is a contract for the use of a vessel for a fixed period of time at a specified daily rate. A customer generally selects a time charter if it wants a dedicated vessel for a period of time, and the customer is commercially responsible for the use of the vessel. Under a typical time charter, the shipowner provides crewing and other services related to the vessel's operation, the cost of which is included in the daily rate, while the customer is responsible for substantially all of the voyage expenses. When the vessel is "off hire", or not available for service, the customer generally is not required to pay the hire rate, and the shipowner is responsible for all costs, including the cost of fuel bunkers, unless the customer is responsible for the circumstances giving rise to the lack of availability. A vessel generally will be deemed to be off hire if there is an occurrence preventing the full working of the vessel. “Hire rate” refers to the basic payment from the charterer for the use of the vessel. Under our time charters, hire is payable monthly in advance in U.S. Dollars. Hire payments may be reduced, or under some time charters the shipowner must pay liquidated damages, if the vessel does not perform to certain of its specifications, such as if the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount.

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

Our Full Service Lightering, Ship-to-ship Support Services, and LNG Terminal Management and Consultancy Strategy

Full Service Lightering. Full service lightering is the process of transferring cargo between vessels of different sizes. Our lightering capability leverages access to our Aframax fleet operating in the USG and our offshore lightering support acumen to provide full service lightering. Our customers include oil companies and trading companies that are importing or exporting crude oil in the USG to or from larger Suezmax and VLCC vessels which are port restricted due to their size. We believe that our full service lightering in the USG will provide additional base cargo volume complementary to our spot trading strategy in the Caribbean to the USG market and allow our Manager to better optimize the deployment of the fleet that we trade in this region through better scheduling flexibility and utilization.

Ship-to-Ship Support Services and LNG Terminal Management and Consultancy Services. Ship-to-ship (or STS) support service is the process of transferring cargo between seagoing ships positioned alongside each other, either stationary or underway. Demand for global STS support services is often driven by oil market arbitrages and oil traders optimizing their USD ton/mile on cargoes. For conventional crude, dirty petroleum, clean petroleum and LPG product, we intend to access various opportunities related to the provision of global ship-to-ship services, including blending, breaking of bulk cargo shipments, and the optimization of markets in contango which may use floating storage as a more cost-effective solution to shore tankage. In addition, there is demand for global LNG ship-to-ship support services due to the limited number of ice capable LNG carriers, which increasingly is resulting in the shuttling of LNG cargo to conventional LNG carriers for long haul voyages.

LNG terminal management and consultancy services revolve around tailored service provisions focusing on areas, such as LNG terminal operations and maintenance, LNG terminal development, LNG bunkering solutions, and commissioning and compatibility services. We seek to obtain more sustainable revenue through long-term, fixed-rate contracts for these LNG services.

Industry and Competition

We compete in the Suezmax (125,000 to 199,999 dwt) and Aframax (85,000 to 124,999 dwt) crude oil tanker markets. Our competition in the Aframax and Suezmax markets is also affected by the availability of other size vessels that compete in these markets. Suezmax size vessels and Panamax (55,000 to 84,999 dwt) size vessels can compete for many of the same charters for which our Aframax tankers compete; Aframax size vessels and VLCCs (200,000 to 319,999 dwt) can compete for many of the same charters for which our Suezmax tankers may compete. Because of their large size, VLCCs and Ultra Large Crude Carriers (or ULCCs) (320,000+ dwt) rarely compete directly with Aframax tankers, and ULCCs rarely compete with Suezmax tankers for specific charters. However, because VLCCs and ULCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax trades and of Suezmax vessels into Aframax trades would heighten the already intense competition.

We also compete in the LR2 (85,000 to 109,999 dwt) product tanker market. Our competition in the LR2 product tanker market is affected by the availability of other size vessels that compete in the market. Long Range 1 (or LR1) (55,000-84,999 dwt) size vessels can compete for many of the same charters for which our LR2 tankers compete.

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

As of December 31, 2018, we remain effectively one of three active full service lightering businesses in the U.S. Gulf Coast. We remain one of two providers that consistently provide a complete full service STS offering, which includes the availability of Aframax tonnage to provide shipment between shore and offshore. USG lightering trade has a steady foundation of demand due to traditional imports into the United States to serve U.S. Gulf Coast refinery demand. Although imports of crude oil into the U.S. have declined as a result of rising domestic crude oil production, OPEC supply cuts in 2017/18, and further OPEC supply cuts since the start of 2019, we believe that the demand for import lightering has stabilized to a base level that is consistent to the dependency which U.S. refiners still have on foreign oil that is only economically transported on larger VLCC and Suezmax vessels into the U.S. Gulf Coast. At the end of 2018, export lightering grew to approximately 45% of total volume lightered in the U.S. Gulf. As the United States continues to project growth in crude production, we believe that the percentage of export lightering as compared to import lightering will continue to increase as shippers look to leverage U.S. crude oil exports on larger size vessels, including VLCC and Suezmax vessels targeted for Asia. Although the ports of Houston and Corpus Christi, Texas are now able to accommodate a VLCC at berthside for direct loading, draft restrictions will still require offshore top off ship-to-ship loading for those vessels to lift full capacity at an economic dollar per tonne basis.

The operation of tanker vessels, as well as the seaborne transportation of crude oil and refined petroleum products is a competitive market. There are several large operators of Aframax, Suezmax, and LR2 tonnage that provide these services globally. Competition in both the crude and product tanker markets is primarily based on price, location (for single-voyage or short-term charters), size, age, condition and acceptability of the vessel, oil tanker shipping experience and quality of ship operations, and the size of an operating fleet, with larger fleets allowing for greater vessel substitution, availability and customer service. Aframax and Suezmax tankers are particularly well-suited for short and medium-haul crude oil routes, while LR2 tankers are well-suited for long and medium-haul refined product routes.

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

Our largest competitor in the ship-to-ship global support business and the LNG terminal management and consultancy business is Fendercare Marine. Fendercare Marine is well-established and was relatively unchallenged in what was a niche market until 2006, when TMS developed from being primarily a U.S.-based supplier. Through the growth of TMS we have gained market share, and now under TNK, we look to maintain our presence through our intended business development.

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

Oil has been one of the world’s primary energy sources for a number of decades. As of December 2018, the International Energy Agency (or IEA) estimated that oil consumption will increase from 99.2 million barrels per day (or mb/d) in 2018, to 100.7 mb/d in 2019, driven by increasing consumption in non-OECD countries. A majority of known oil reserves are located in regions far from major consuming regions, which positively impacts demand for oil tankers.

The distance over which crude oil or refined petroleum products are transported is determined by seaborne trading and distribution patterns, which are principally influenced by the relative advantages of the various sources of production and locations of consumption. Seaborne trading patterns are also periodically influenced by geopolitical events, such as wars, hostilities and trade embargoes that divert tankers from normal trading patterns, as well as by inter-regional oil trading activity created by oil supply and demand imbalances. Historically, the level of oil exports from the Middle East has had a strong effect on the crude tanker market due to the relatively long distance between this supply source and typical discharge points. Over the past few years, the growing economies of China and India have increased and diversified their oil imports, resulting in an overall increase in transportation distance for crude tankers. Major consumers in Asia have increased their crude import volumes from longer-haul producers, such as those in the Atlantic Basin.

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

Oil Tanker Supply. New Aframax, Suezmax and LR2 tankers are generally expected to have a lifespan of approximately 25 to 30 years, based on estimated hull fatigue life. As of December 31, 2018, the world Aframax crude tanker fleet consisted of 642 vessels, with an additional 77 Aframax crude oil tanker newbuildings on order for delivery through 2022; the world Suezmax crude tanker fleet consisted of 567 vessels, with an additional 64 Suezmax crude oil tanker newbuildings on order for delivery through 2021; the world LR2 product tanker fleet consisted of 352 vessels, and with an additional 35 LR2 product tanker newbuildings on order through 2021. Currently, delivery of a vessel typically occurs within two to three years after ordering.

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

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

Safety, Management of Ship Operations and Administration

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

We, through our subsidiaries and affiliates, provide technical management services for some of our vessels. We have obtained through Det Norske Veritas Germanischer Lloyd (or DNV-GL), the Norwegian classification society, approval of its safety management system as in compliance with the International Safety Management Code (or ISM Code), and this system has been implemented for all of our vessels. As part of our ISM Code compliance, all of the vessels’ safety management certificates are maintained through ongoing internal audits performed by certified internal auditors and intermediate audits performed by DNV-GL.

In addition to the mandatory internal audits conducted by the QATOs, an internal audit is conducted by our Health Safety, Environment and Quality (or HSEQ) team every quarter to ensure that all ship management functions are strictly adhered to.

We conduct quarterly Safety Management courses for senior officers, Onboard Safety Officer courses for safety officers and Rating safety courses. Additionally, a Safety Orientation Seminar is conducted every month for the ratings in Manila to emphasize key messages around safety.

Depending on existing HSEQ trends, various campaigns are run to address the shortcomings that are identified.

Additionally, a number of other projects have been implemented, including the Navigation Safety Handbook, Significant Incident Potential (SIP), Behavioral Safety (E-colors) as well as Risk Tools handbook.

We provide, through our subsidiaries and affiliates, expertise in various functions critical to our operations and access to human resources, financial and other administrative functions. Critical ship management functions include:

- vessel maintenance (including repairs and dry docking) and certification;
- crewing by competent seafarers;
- purchasing of stores, bunkers and spare parts;
- shipyard supervision;

- insurance; and
- financial management services.

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

All vessels are operated by us under a comprehensive and integrated Safety Management System that complies with the ISM Code, the International Standards Organization's (or ISO) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, and Occupational Health and Safety Assessment Series (or OHSAS) 18001 and the new Maritime Labour Convention 2006 that became enforceable on August 20, 2013. The management system is certified by DNV-GL. Although certification is valid for five years, compliance with the above-mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits as well as external verification audits by DNV-GL and certain flag states.

Risk of Loss, Insurance and Risk Management

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

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

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

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

Flag, Classification, Audits and Inspections

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

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

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

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

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

- our vessels and operations adhere to our operating standards;
- the structural integrity of the vessel is being maintained;
- machinery and equipment is being maintained to give reliable service;
- we are optimizing performance in terms of speed and fuel consumption; and
- our vessels' appearance supports our brand and meets customer expectations.

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

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

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

Regulations

General

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

International Maritime Organization (or IMO)

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

Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (or CLC). Under this convention, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g. crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner's actual fault or when the spill is caused by the owner's intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

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

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

The IMO's Maritime Safety Committee (or MSC) has adopted the International Code of Safety for Ships using Gases or other Low-flashpoint Fuels (the IGF Code), which is mandatory for ships fueled by gases or other low-flashpoint fuels, setting out mandatory provisions for the arrangement, installation, control and monitoring of machinery, equipment and systems using low-flashpoint fuel.

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

Annex VI provides for a three-tier reduction in NOx emissions from marine diesel engines, with the final tier (or Tier III) to apply to engines installed on vessels constructed on or after January 1, 2016 and which operate in the North American ECA or the U.S. Caribbean Sea ECA as well as ECAs designated in the future by the IMO. In October 2016 the IMO's Marine Environment Protection Committee (or MEPC) approved the designation of the North Sea (including the English Channel) and the Baltic Sea as ECAs for NOx emissions; these ECAs and the related amendments to Annex VI of MARPOL (with some exceptions) entered into effect on January 1, 2019. This requirement will be applicable for new ships constructed on or after January 1, 2021 if they visit the Baltic or North Sea (including the English Channel) and requires the future trading area of a ship to be assessed at the contract stage. There are exemption provisions to allow ships with only Tier II engines, to navigate in a NOx Tier III ECA if the ship is departing from a shipyard where the ship is newly built or visiting a shipyard for conversion/repair/maintenance without loading/unloading cargoes.

Effective January 1, 2020, Annex VI imposes a global limit for sulphur in fuel oil used on board ships of 0.50% m/m (mass by mass), regardless of whether a ship is operating outside a designated ECA. To comply with this new standard, ships may utilize different fuels containing low or zero sulphur (e.g., LNG or biofuels), or utilize exhaust gas cleaning systems, known as "scrubbers". Amendments to the information to be included in bunker delivery notes relating to the supply of marine fuel oil to ships fitted with alternative mechanisms to address sulphur emission requirements (e.g., scrubbers) became effective January 1, 2019. We have taken and continue to take steps to comply with the 2020 sulphur limit. At present, we have not installed any scrubbers on our fleet and we intend to switch over to burning low sulphur fuel from January 1, 2020.

As of March 1, 2018, amendments to Annex VI impose new requirements on ships of 5,000 gross tonnage and above to collect fuel oil consumption data for ships, as well as certain other data including proxies for transport work; the amendments also set forth criteria for determining whether cargo residues are harmful to the marine environment and a new Garbage Record Book format.

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

The IMO's Ballast Water Management Convention entered into force on September 8, 2017. As of December 31, 2018, there were 79 contracting states to the convention. The convention stipulates two standards for discharged ballast water. The D-1 standard covers ballast water exchange while the D-2 standard covers ballast water treatment. The convention requires the implementation of either the D-1 or D-2 standard. There will be a transitional period from the entry into force to the International Oil Pollution Prevention (or IOPP) renewal survey in which ballast water exchange (reg. D-1) can be employed. The IMO's Marine Environment Protection Committee (or MEPC) agreed to a compromise on the implementation dates for the D-2 discharge standard: ships constructed on or after September 8, 2017 must comply with the D-2 standard upon delivery. Existing ships should be D-2 compliant on the first IOPP renewal following entry into force if the survey is completed on or after September 8, 2019, or a renewal IOPP survey is completed on or after September 8, 2014 but prior to September 8, 2017. Ships should be D-2 compliant on the second IOPP renewal survey after September 8, 2017 if the first renewal survey after that date is completed prior to September 8, 2019 and if the previous two conditions are not met. Vessels will be required to meet the discharge standard D-2 by installing an approved Ballast Water Management System (or BWMS). Besides the IMO convention, ships sailing in U.S. waters are required to employ a type-approved BWMS which is compliant with USCG regulations. The USCG has approved a number of BWMS - Alfa Laval (Sweden), Ocean Saver (Norway), Sunrui (China), Optimarin (Norway), Ecochlor (USA), Erma First (Greece), Hyundai Heavy Industries Co. Ltd. (Korea), Qingdao Headway Technology Co. Ltd. (China), and JFE Engineering Corporation (Japan), out of which first two makers are under Teekay's approved list for retrofit. We estimate that the installation of approved BWMS may cost between $2 million and $3 million per vessel.

Amendments to MARPOL Annex VI that makes the data collection system for fuel oil consumption of ships mandatory were adopted at the 70th session of the MEPC held in October 2016 and entered into force on March 1, 2018. The amendments require operators to update the vessels Ship Energy Efficiency Management Plan (SEEMP) to include a part II describing the ship specific methodology that will be used for collecting and measuring data for fuel oil consumption, distance travelled, hours underway, ensuring data quality is maintained and the processes that will be used to report the data to the Administration. This must be verified as compliant on or before December 31, 2018, with the first data collection period being for the 2019 calendar year. A Confirmation of Compliance will be issued by the administration/registered organization, which must be kept on board the ship.

The IMO has also adopted an International Code for Ships Operating in Polar Waters (or Polar Code) which deals with matters regarding design, construction, equipment, operation, search and rescue and environmental protection in relation to ships operating in waters surrounding the two poles. The Polar Code includes both safety and environmental provisions. The Polar Code and related amendments entered into force in January 2017. The Polar Code is mandatory for new vessels built after January 1, 2017. For existing ships, this code will be applicable from the first intermediate or renewal survey, whichever occurs first, beginning on or after January 1, 2018.

In addition to the requirements of major IMO shipping conventions, the exploration for and production of oil and gas within the Newfoundland & Labrador (or NL) offshore area is conducted pursuant to the Canada Newfoundland and Labrador Atlantic Accord Implementation Act (or the Accord Act) in accordance with the conditions of a license and authorization issued by the Canada-Newfoundland and Labrador Offshore Petroleum Board (or CNLOPB). Various regulations dealing with environmental, occupational health and safety, and other aspects of offshore oil and gas activities have been enacted under the Accord Act. The CNLOPB has also issued interpretive guidelines concerning compliance with the regulations, and compliance with CNLOPB guidelines may be a condition of the issuance or renewal of the license and authorizations. These regulations and guidelines require that the shuttle tankers in the NL offshore area meet stringent standards for equipment, reporting and redundancy systems, and for the training and equipping of seagoing staff. Further, licensees are required by the Accord Act to provide a benefits plan satisfactory to CNLOPB. Such plans generally require the licensee to: establish an office in NL; give NL residents first consideration for training and employment; make expenditures for research and development and education and training to be carried out in NL; and give first consideration to services provided from within NL and to goods manufactured in NL. These regulatory requirements may change as regulations and CNLOPB guidelines are amended or replaced from time to time.

MARPOL Annex I also states that oil residue may be discharged directly from the sludge tank to the shore reception facility through standard discharge connections. They may also be discharged to the incinerator or to an auxiliary boiler suitable for burning the oil by means of a dedicated discharge pump. Amendments to Annex I expand on the requirements for discharge connections and piping to ensure residues are properly disposed of. Annex I is applicable for existing vessels with a first renewal survey beginning on or after January 1, 2017.

Amendments to MARPOL Annex V were adopted at the 70th session of the MEPC held in October 2016 and entered into force on March 1, 2018. The changes include criteria for determining whether cargo residues are harmful to the marine environment and a new Garbage Record Book (or GRB) format with a new garbage category for e-waste. Solid bulk cargo as per regulation VI/1-1.2 of SOLAS, other than grain, shall now be classified as per the criteria in the new Appendix I of MARPOL Annex V, and the shipper shall then declare whether or not the cargo is harmful to the marine environment. A new form of the GRB has been included in Appendix II to MAROL Annex V. The GRB is now divided into two parts: Part I - for all garbage other than cargo residues, applicable to all ships; PART II - for cargo residues only applicable to ships carrying solid bulk cargo. These changes are reflected in the vessels' latest revised GRB.

MSC 91 adopted amendments to SOLAS Regulation II-2/10 to clarify that a minimum of two-way portable radiotelephone apparatus for each fire party for firefighters' communication shall be carried on board. These radio devices shall be of explosion proof type or intrinsically safe type. All existing ships built before July 1, 2014 should comply with this requirement by the first safety equipment survey after July 1, 2018. All new vessels constructed (keel laid) on or after July 1, 2014 must comply with this requirement at the time of delivery. Amendments to SOLAS Regulation II-1/2/-12 on protection against noise, Regulation II-2/1 and II 2/10 on firefighting and new Regulation XI-12-1 on harmonization of survey periods of cargo ships not subject to the ESP code become effective January 1, 2020.

As per MSC. 338(91), requirements have been highlighted for audio and visual indicators for breathing apparatus which will alert the user before the volume of the air in the cylinder has been reduced to no less than 200 liters. This applies to ships constructed on or after July 1, 2014. Ships constructed before July 1, 2014 must comply no later than July 1, 2019.

Cyber-related risks are operational risks that are appropriately assessed and managed in accordance with the safety management requirements of the ISM Code. Cyber risks are required to be appropriately addressed in our safety management system no later than the first annual verification of the company's Document of Compliance after January 1, 2021.

The IMO continues to review and introduce new regulations; as such, it is impossible to predict what additional requirements, if any, may be adopted by the IMO and what effect, if any, such regulations might have on our operations.

European Union (or EU)

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

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

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

The EU has adopted a Directive requiring the use of low sulfur fuel. Since January 1, 2015, vessels have been required to burn fuel with sulfur content not exceeding 0.1% while within EU member states' territorial seas, exclusive economic zones and pollution control zones that are included in SOX Emission Control Areas. Other jurisdictions have also adopted similar regulations. Since January 1, 2014, the California Air Resources Board has required vessels to burn fuel with 0.1% sulfur content or less within 24 nautical miles of California. China also established emission control areas and continues to establish such areas, restricting the maximum sulfur content of the fuel to be used by vessels within those areas, which limits become progressively stricter over time.

IMO regulations required that as of January 1, 2015, all vessels operating within ECAs worldwide recognized under MARPOL Annex VI must comply with 0.1% sulfur requirements. Certain modifications were necessary in order to optimize operation on low sulphur marine gas oil (LSMGO) of equipment originally designed to operate on Heavy Fuel Oil (or HFO). In addition, LSMGO is more expensive than HFO and this could impact the costs of operations. Our exposure to increased cost is in our spot trading vessels, although our competitors bear a similar cost increase as this is a regulatory item applicable to all vessels. All required vessels in our fleet trading to and within regulated low sulfur areas are able to comply with fuel requirements. The global cap on the sulfur content of fuel oil is currently 3.5%, to be reduced to 0.5% by January 1, 2020.

The EU Ship Recycling Regulation aims to prevent, reduce and minimize accidents, injuries and other negative effects on human health and the environment when ships are recycled and the hazardous waste they contain is removed. The legislation applies to all ships flying the flag of an EU country and to vessels with non-EU flags that call at an EU port or anchorage. It sets out responsibilities for ship owners and for recycling facilities both in the EU and in other countries. Each new ship has to have on board an inventory of the hazardous materials (such as asbestos, lead or mercury) it contains in either its structure or equipment. The use of certain hazardous materials is forbidden. Before a ship is recycled, its owner must provide the company carrying out the work with specific information about the vessel and prepare a ship recycling plan. Recycling may only take place at facilities listed on the EU 'List of facilities'. In 2014, the Council Decision 2014/241/EU authorized EU countries having ships flying their flag or registered under their flag to ratify or to accede to the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships. Compliance timelines are as follows: EU-flagged new-buildings were required to have on board a verified Inventory of Hazardous Materials (IHM) with a Statement of Compliance at the latest by December 31, 2018, existing EU-flagged and non-EU-flagged vessels are required to have on board a verified IHM with a Statement of Compliance at the latest by December 31, 2020. The EU Commission adopted a European List of approved ship recycling facilities, as well as four further implementing decisions dealing with certification and other administrative requirements set out in the Regulation.

United States

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

Under OPA 90, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

- natural resources damages and the related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

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

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

OPA 90 also requires owners and operators of vessels to establish and maintain with the USCG evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The USCG has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternative method subject to approval by the USCG. Under the self-insurance provisions, the ship owners or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the USCG regulations by obtaining financial guaranties from one of its subsidiaries covering our vessels. If other vessels in our fleet trade into the United States in the future, we expect to obtain guaranties from third-party insurers.

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

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

- address a "worst case" scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a "worst case discharge";
- describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.

All our vessels have USCG approved vessel response plans. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The USCG has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

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

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

Our vessels that discharge certain effluents, including ballast water, in U.S. waters must obtain a Clean Water Act permit from the EPA titled the "Vessel General Permit" and comply with a range of effluent limitations, best management practices, reporting, inspections and other requirements. The current Vessel General Permit incorporates USCG requirements for ballast water exchange and includes specific technology-based requirements for vessels, and includes an implementation schedule to require vessels to meet the ballast water effluent limitations by the first dry docking after January 1, 2016, depending on the vessel size. The Vessel Incidental Discharge Act (or VIDA) became effective on December 4, 2018 and establishes a new framework for the regulation of vessel incidental discharges under the CWA. VIDA requires the EPA to develop performance standards for incidental discharges, and requires the USCG to develop regulations within two years of the EPA's promulgation of standards. Under VIDA, all provisions of the Vessel General Permit remain in force and effect as currently written until the USCG regulations are finalized. Vessels that are constructed after December 1, 2013 are subject to the ballast water numeric effluent limitations. Several U.S. states have added specific requirements to the Vessel General Permit and, in some cases, may require vessels to install ballast water treatment technology to meet biological performance standards.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (or the Kyoto Protocol) entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding but is intended to pave the way for a comprehensive, international treaty on climate change. In December 2015 the Paris Agreement (or the Paris Agreement) was adopted by a large number of countries at the 21st Session of the Conference of Parties (commonly known as COP 21, a conference of the countries which are parties to the United Nations Framework Convention on

Climate Change; the COP is the highest decision-making authority of this organization). The Paris Agreement, which entered into force on November 4, 2016, deals with greenhouse gas emission reduction measures and targets from 2020 in order to limit the global temperature increases to well below 2˚ Celsius above pre-industrial levels. Although shipping was ultimately not included in the Paris Agreement, it is expected that the adoption of the Paris Agreement may lead to regulatory changes in relation to curbing greenhouse gas emissions from shipping.

In July 2011, the IMO adopted regulations imposing technical and operational measures for the reduction of greenhouse gas emissions. These new regulations formed a new chapter in Annex VI and became effective on January 1, 2013. The new technical and operational measures include the “Energy Efficiency Design Index” (or the EEDI), which is mandatory for newbuilding vessels, and the “Ship Energy Efficiency Management Plan,” which is mandatory for all vessels. In October 2016, the IMO’s MEPC adopted updated guidelines for the calculation of the EEDI. In October 2014, the IMO’s MEPC agreed in principle to develop a system of data collection regarding fuel consumption of ships. In October 2016, the IMO adopted a mandatory data collection system under which vessels of 5,000 gross tonnages and above are to collect fuel consumption and other data and to report the aggregated data so collected to their flag state at the end of each calendar year. The new requirements entered into force on March 1, 2018. All vessels are required to submit fuel consumption data to their respective administration/registered organizations for onward submission to the IMO for analysis and to help with decision making on future measures. The amendments require operators to update the vessel's SEEMP to include a part II describing the ship specific methodology that will be used for collecting and measuring data for fuel oil consumption, distance travelled, hours underway and processes that will be used to report the data to the Administration, in order to ensure data quality is maintained. The vessels were required to be verified as compliant on or before December 31, 2018, with the first data collection period being for the 2019 calendar year. A Confirmation of Compliance will be issued by the administration/registered organization, which must be kept on board the ship. The IMO also approved a roadmap for the development of a comprehensive IMO strategy on reduction of greenhouse gas emissions from ships with an initial strategy adopted on April 13, 2018 and a revised strategy to be adopted in 2023.

The EU also has indicated that it intends to propose an expansion of an existing EU emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries in the EU may impose additional requirements. The EU has adopted Regulation (EU) 2015/757 on the monitoring, reporting and verification (MRV) of CO_2 emissions from vessels (or the MRV Regulation), which entered into force on July 1, 2015. The MRV Regulation aims to quantify and reduce CO_2 emissions from shipping. It lists the requirements on MRV of carbon dioxide emissions and requires ship owners and operators to annually monitor, report and verify CO_2 emissions for vessels larger than 5,000 gross tonnage calling at any EU and EFTA (Norway and Iceland) port (with a few exceptions, such as fish-catching or fish-processing vessels). Data collection takes place on a per voyage basis and started January 1, 2018. The reported CO_2 emissions, together with additional data, such as cargo and energy efficiency parameters, are to be verified by independent verifiers and sent to a central inspection database hosted by the European Maritime Safety Agency (EMSA) to collate all the data applicable to the EU region. Companies responsible for the operation of large ships using EU ports are required to report their CO_2 emissions. While the EU was considering a proposal for the inclusion of shipping in the EU Emissions Trading System as from 2021 (in the absence of a comparable system operating under the IMO) it appears that the decision to include shipping may be deferred until 2023.

In the United States, the EPA issued an "endangerment finding" regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. In addition, climate change initiatives are being considered in the United States Congress and by individual states. Any passage of new climate control legislation or other regulatory initiatives by the IMO, EU, the United States or other countries or states where we operate that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business that we cannot predict with certainty at this time.

Vessel Security

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and Maritime Transportation Security Act of 2002 (U.S. specific requirements). Procedures are in place to inform the Maritime Security Council Horn of Africa (or MSCHOA) whenever our vessels are calling in the Indian Ocean Region or West Coast of Africa (or WAC) high risk area. In order to mitigate the security risk, security arrangements are required for vessels which travel through the Gulf of Aden and WAC region.

C. Organizational Structure

As of December 31, 2018, Teekay Corporation (NYSE: TK), through its 100%-owned subsidiary Teekay Holdings Ltd., had a 28.8% economic interest in us through its ownership of 40.3 million of our shares of Class A common stock and 37.0 million shares of our Class B common stock.

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

Please read Exhibit 8.1 to this Annual Report for a list of our subsidiaries as of December 31, 2018.

D. Property, Plant and Equipment

Other than our vessels and related equipment, we do not have any material property.

Please see "Item 4. Information on the Company - B. Business Overview - Our Fleet" for a description of our vessels and "Item 18. Financial Statements: Note 10 – Long-Term Debt and Note 11 – Leases" for information about major encumbrances against our vessels.

E. Taxation of the Company

1. United States Taxation

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

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

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

Based on our current operations, a substantial portion of our Transportation Income is from sources outside the United States and not subject to U.S. federal income tax. In addition, we believe that we have not earned any U.S. Source Domestic Transportation Income, and we expect that we will not earn a material amount of such income in future years. However, certain of our subsidiaries which have made special U.S. tax elections to be treated as partnerships or disregarded as entities separate from us for U.S. federal income tax purposes are potentially engaged in activities which could give rise to U.S. Source International Transportation Income. Unless the exemption from U.S. taxation under Section 883 of the Code (or the Section 883 Exemption) applies, our U.S. Source International Transportation Income generally is subject to U.S. federal income taxation under either the net basis and branch profits taxes or the 4% gross basis tax, each of which is discussed below.

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

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

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

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

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

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the statutory rate for 2018 onwards is 21%), and a 30% branch profits tax imposed under Section 884 of the Code. In addition, a branch interest tax could be imposed on certain interest paid or deemed paid by us.

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

The 4% Gross Basis Tax. If the Section 883 Exemption does not apply and we are not subject to the net basis and branch profits taxes described above, we will be subject to a 4% U.S. federal income tax on our gross U.S. Source International Transportation Income, without benefit of deductions. For 2018, we estimate that if the Section 883 Exemption and the net basis tax did not apply, the U.S. federal income tax on such U.S. Source International Transportation Income would have been approximately $5.9 million. The amount of such tax for which we are liable in any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

2. Marshall Islands Taxation

Because we and our controlled affiliates do not, and we do not expect that we or they will, conduct business, operations, or transactions in the Republic of the Marshall Islands, neither we nor our controlled affiliates are subject to income, capital gains, profits or other taxation under current Marshall Islands law, other than taxes, fines, or fees due to (i) the incorporation, dissolution, continued existence, merger, domestication (or similar concepts) of legal entities registered in the Republic of the Marshall Islands, (ii) filing certificates (such as certificates of incumbency, merger, or re-domiciliation) with the Marshall Islands registrar, (iii) obtaining certificates of good standing from, or certified copies of documents filed with, the Marshall Islands registrar, (iv) compliance with Marshall Islands law concerning vessel ownership, such as tonnage tax, or (v) non-compliance with requests made by the Marshall Islands registrar of corporations relating to our books and records and the books and records of our subsidiaries. As a result, distributions by our controlled affiliates to us are not subject to Marshall Islands taxation.

3. Other Taxation

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

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

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

General

We were formed in October 2007 by Teekay Corporation (NYSE: TK), a leading provider of marine services to the global oil and gas industries, and we completed our initial public offering in December 2007. Our business is to own oil and product tankers and we employ a chartering strategy that seeks to capture upside opportunities in the tanker spot market while using fixed-rate time charters to reduce downside risks. Our mix of vessels trading in the spot market or subject to fixed-rate time charters will change from time to time. We further developed our service offerings to our customers through the 2015 purchase of a ship-to-ship (or STS) transfer business that provides full service lightering as well as lightering support services and consultancy and LNG terminal management services. This acquisition, which is adjacent to our core competencies, along with our existing conventional tanker commercial management and technical management operations, improved our ability to manage the cyclicality of the tanker market through the less volatile cash flows generated by these business areas. Historically, the tanker industry has experienced volatility in profitability due to changes in the supply of, and demand for, tanker capacity. Tanker supply and demand are each influenced by several factors beyond our control.

Teekay Corporation currently holds a majority of the voting power of our common stock, which includes Class A common stock and Class B common stock.

Under our current dividend policy, quarterly dividends are expected to range from 30% to 50% of our quarterly adjusted net income, subject to reserves our Board of Directors may determine are necessary for the prudent operations of the company. Dividend payments are subject to the discretion of our Board of Directors, and the policy remains subject to change. Adjusted net (loss) income is a non-GAAP measure which excludes specific items affecting net (loss) income that are typically excluded by securities analysts in their published estimates of our financial results.

Significant Developments in 2018 and Early 2019

Board of Directors

In March 2019, we announced several changes to our Board of Directors. Director William Lawes retired from our Board effective March 31, 2019. Directors Bjorn Moller and Richard J.F. Bronks will retire from our Board, effective at the 2019 annual meeting of shareholders. The Board has also nominated David Schellenberg, a current director of Teekay Corporation, to stand for election as a director at the 2019 annual meeting. With these changes, we expect the size of our Board of Directors to be reduced subsequent to William Lawes' retirement from six members to five members.

Working Capital Borrowing Base Facility Agreement

In November 2018, one of our subsidiaries entered into a working capital loan facility agreement which provides for available aggregate borrowings of up to $40.0 million by the subsidiary, subject to certain limits based on the amount of accounts receivable and accrued revenues, with the option to increase the facility up to an additional $15.0 million, subject to approval of the lender. As of December 31, 2018, we had not drawn any amounts under this facility.

Sale-leaseback Financing Transactions

In February 2019, we signed a term sheet for a $63.7 million sale-leaseback financing transaction relating to two of our Suezmax tankers. If completed, we expect to increase our liquidity position by approximately $25 million after the repayment of outstanding debt related to these vessels. The transaction, which remains subject to customary conditions precedent and execution of definitive documentation, is expected to be completed in the second quarter of 2019.

In November 2018, we completed a $84.7 million sale-leaseback financing transaction relating to four of our vessels including two Aframax tankers, one Suezmax tanker and one LR2 product tanker. Each vessel is leased on a bareboat charter with terms ranging from 10 to 12 years, with fixed daily rates on the charters ranging between $5,000 and $7,800, and with purchase options for all four vessels throughout the remaining lease term beginning in November 2021 and upon maturity of the bareboat charters. Proceeds from the sale-leaseback transaction were used to refinance one of our corporate revolvers which matured in November 2018, and to prepay a portion of another loan facility.

In September 2018, we completed a $156.6 million sale-leaseback financing transaction relating to six of our Aframax tankers. Each vessel is leased on a bareboat charter, with terms ranging from nine to 10 years, with fixed daily rates on the charters ranging between $9,400 and $11,200, and with purchase options for all six vessels throughout the remaining lease term beginning in September 2020. We are obligated to purchase each vessel upon maturity of the bareboat charters. Proceeds from the sale-leaseback transaction were used to prepay a portion of one of our loan facilities.

Changes to Authorized Common Stock

In July 2018, we amended our amended and restated articles of incorporation, increasing the authorized number of Class A common shares from 285,000,000 to 485,000,000 and the total authorized number of shares of capital stock from 485,000,000 to 685,000,000.

In March 2018, we increased the authorized number of Class A common shares issuable under our 2007 Long-Term Incentive Plan by 6.0 million shares. As of December 31, 2018, approximately 4.3 million shares of our Class A common stock remained as reserves pursuant to the 2007 Long-Term Incentive Plan for issuance of options or restricted stock units to be granted.

STX Offshore & Shipbuilding Co., Ltd (or STX) Arbitration

In 2014 we brought action against STX for its repudiation of four firm shipbuilding contracts and an option agreement for additional vessels. In November 2017, each of our four subsidiaries to the repudiated contracts became entitled to receive, as part of a rehabilitation plan relating to STX's bankruptcy proceedings, an $8.9 million award, 7% of which was to be paid in cash annually through 2026, and 93% of which was to be paid in STX equity. In June 2018, our subsidiaries received a total of 315,856 shares of STX, representing a minor percentage interest.

As of December 31, 2018, the STX shares were de-listed and no amounts have been recorded due to the uncertainty of their value. In addition, we have not recognized a receivable with respect to the non-interest-bearing cash award due to uncertainty of collection.

Please refer to Item 18 - Financial Statements: Note 22 - Shipbuilding Contracts.

Dividend Policy

Effective May 2018, we eliminated the payment of our minimum quarterly dividend of $0.03 per share in order to preserve liquidity during the cyclical downturn of the tanker spot market. Under the revised dividend policy, quarterly dividends are expected to range from 30% to 50% of our quarterly adjusted net income, subject to reserves our Board of Directors may determine are necessary for the prudent operations of the company. Dividend payments are subject to the discretion of our Board of Directors, and the policy remains subject to change.

Time Chartered-in Vessels

During the fourth quarter of 2018, we entered into time charter-in contracts for 2.5 Aframax vessel equivalents for periods ranging one to two years with extension options. The new time charter-in contracts have a weighted average daily rate of $17,600.

In March 2018, we entered into time charter-in contracts for two Aframax vessels, with an average daily rate of approximately $11,900 and firm periods of 45 days to six months. The charter contract for one of the Aframax tankers included a 50/50 profit sharing component with the option to extend the contract for six months at an escalated rate. The charter contract for the other Aframax tanker had a maximum period of approximately four months and the vessel was used to support full service lightering operations. Both Aframax tankers were redelivered back to their respective owners in June and September 2018. We also redelivered one in-chartered Aframax tanker back to its owner in March 2018.

Time Chartered-out Vessels

In July 2018, we entered into a time charter-out contract for one Suezmax tanker, with a daily rate of $17,500 and a firm period of 12 months, with an option to extend the contract at an escalated rate. In January 2018, we entered into a time charter-out contract for one Suezmax tanker, with a daily rate of $17,250 and a period of six to nine months, with an option to extend the contract to a year at an escalated rate.

During 2018, six time chartered-out Suezmax tankers, seven time chartered-out Aframax tankers and two time chartered-out LR2 product tankers were redelivered to us. All of these vessels were trading in the spot market as of December 31, 2018.

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

Revenues. Revenues primarily include revenues from time charters, voyage charters, revenue sharing arrangements and full service lightering and lightering support services. Revenues are affected by hire rates and the number of days a vessel operates. Revenues are also affected by the mix of our business between time charters, voyage charters and vessels operating in revenue sharing arrangements. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage. Our charters are explained further below.

Voyage Expenses. Voyage expenses are all expenses unique to a particular voyage, including any fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the shipowner under voyage charters and the customer under time charters, except when the vessel is off-hire during the term of a time charter, in which case the owner pays voyage expenses.

Net Revenues. Net revenues represent revenues less voyage expenses. Because the amount of voyage expenses we incur for a particular charter depends upon the type of the charter, we use net revenues to improve the comparability between periods of reported revenues that are generated by the different types of charters and contracts. We principally use net revenues, a non-GAAP financial measure, because we believe it provides more meaningful information to us about the deployment of our vessels and their performance than does revenues, the most directly comparable financial measure under GAAP.

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

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

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

Depreciation and Amortization. Our depreciation and amortization expense typically consists of charges related to the depreciation of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of our vessels, charges related to the amortization of dry-docking expenditures over the estimated number of years to the next scheduled dry docking, and charges related to the amortization of our intangible assets over the estimated useful life of 10 years.

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

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

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

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

- Voyage charters are charters for shorter intervals that are priced on a current or "spot" market rate then adjusted for pool participation based on predetermined criteria, if applicable; and
- Time charters, whereby vessels are chartered to customers for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates or current market rates.

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

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

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

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

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

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

Items You Should Consider When Evaluating Our Results

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

- Adoption of Accounting Standards Update 2014-09. 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) (please read "Item 18 – Financial Statements: Note 2 – Recent Accounting Pronouncements"). We have adopted ASU 2014-09 as a cumulative-effect adjustment as of January 1, 2018, and as a result, comparative 2017 and 2016 periods do not reflect the effect of this new standard. The following differences had a material effect on revenues reported in the year ended December 31, 2018:
We previously presented the net allocation for its vessels participating in RSAs as net pool revenues. We have determined that we are the principal in voyages our vessels perform that are included in the RSAs. As such, the revenue from those voyages is presented in voyage charter revenues and the difference between this amount and our net allocation from the RSA is presented as voyage expenses. This had the effect of increasing voyage charter revenues and voyage expenses for the year ended December 31, 2018 by $292.6 million. There was no cumulative impact to opening equity as at January 1, 2018.
We previously presented all accrued revenue as a component of accounts receivable. We have determined that if the right to such consideration is conditioned upon something other than the passage of time, such accrued revenue should be presented apart from accounts receivable. This had the effect of increasing other current assets and decreasing accounts receivable by $17.9 million at December 31, 2018.
- Our financial results reflect the results of TTOL for all periods TTOL was under common control. Our May 2017 acquisition from Teekay of the remaining 50% interest in TTOL was deemed to be a business acquisition between entities under common control. Accordingly, we have accounted for this transaction in a manner similar to the pooling of interests method. Under this method of accounting our consolidated financial statements, for periods prior to the respective date the controlling interest in TTOL was actually acquired by us, is retroactively adjusted to include the results TTOL. The period retroactively adjusted includes all periods that we and TTOL, as applicable, were both under the common control of Teekay and had begun operations. All financial or operational information contained herein for the periods prior to the respective date the controlling interests in TTOL was actually acquired by us, and

during which we and TTOL were under common control of Teekay, are retroactively adjusted to include the results of TTOL and are also referred to as the “Entities under Common Control”.

- Our voyage revenues are affected by cyclicality in the tanker markets. The cyclical nature of the tanker industry causes significant increases or decreases in the revenue we earn from our vessels, particularly those we trade in the spot market.
- Tanker rates also fluctuate based on seasonal variations in demand. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere but weaker in the summer months as a result of lower oil consumption in the northern hemisphere and increased refinery maintenance. In addition, unpredictable weather patterns during the winter months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, revenues generated by our vessels have historically been weaker during the quarters ended June 30 and September 30, and stronger in the quarters ended December 31 and March 31.
- Our U.S. Gulf lightering business competes with alternative methods of delivering crude oil to ports, which may limit our earnings in this area of our operations. Our U.S. Gulf lightering business faces competition from alternative methods of delivering

crude oil shipments to port, including offshore offloading facilities. While we believe that lightering offers advantages over alternative methods of delivering crude oil to U.S. Gulf ports, our lightering revenues may be limited due to the availability of alternative methods.

- Vessel operating and other costs are facing industry-wide cost pressures. The shipping industry continues to forecast a shortfall in qualified personnel, although weak tanker markets may ease officer shortages. We will continue to focus on our manning and training strategies to meet future needs. In addition, factors such as client demands for enhanced training and physical equipment, pressure on commodity and raw material prices, as well as changes in regulatory requirements could also contribute to operating expenditure increases. We continue to take action aimed at improving operational efficiencies, and to temper the effect of inflationary and other price escalations; however, increases to operational costs may well occur in the future.
- The amount and timing of dry dockings of our vessels can significantly affect our revenues between periods. Our vessels are normally off hire when they are being dry docked. We had eight vessels drydock in 2018, compared to seven vessels which dry docked in 2017 and two vessels which dry docked in 2016. The total number of off-hire days relating to dry dockings during the years ended December 31, 2018, 2017 and 2016 were 295, 221, and 82, respectively. For our current fleet, there are 17 owned and leased vessels scheduled to dry dock in 2019.

Results of Operations

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 TCE rates, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time-charter contracts, the customer usually pays the voyage expenses, while under voyage charters, the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost (as is also described in "Our Charters" above). Accordingly, the discussion of revenue below focuses on net revenues and TCE rates (both of which are non-GAAP financial measures) where applicable.

The operating results of our conventional tanker segment and STS segment are presented separately. Our conventional tanker segment includes the operations of all our tankers, including those employed on full service lightering contracts. Our STS transfer segment includes the operating results from lightering support services provided to our conventional tanker segment as part of full service lightering operations and other services provided to our customers associated with our lightering support operations.

Summary

Our consolidated income from vessel operations increased to $7.2 million for the year ended December 31, 2018, compared to $1.4 million in the prior year. The primary reasons for this increase are as follows:

- an increase in income from operations of $16.9 million primarily due to lower operating losses in 2018 as a result of the sales of the Ganges Spirit, Yamuna Spirit, Kyeema Spirit, Kareela Spirit and Kanata Spirit in 2017;

- an increase in income from operations of $3.9 million primarily due to our full service lightering (or FSL) operations as a result of higher realized FSL spot rates and changes in the utilization of dedicated FSL vessels;
- an increase in income from operations of $3.3 million resulting from lower operating expenses primarily due to the scope and timing of repairs and planned maintenance activities in 2018 as compared to 2017; and
- an increase in income from operations of $2.0 million due to the redeliveries to their owners of various in-chartered tankers whose earnings were lower than their time-charter hire expenses;

partially offset by

- a net decrease in income from operations of $20.9 million primarily due to the expiry of time-charter out contracts for various vessels which subsequently traded on spot voyages at lower average realized rates.

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 refer to Item 18 - Financial Statements: Note 6 - Segment Reporting. Details of the changes to our results of operations for each of our segments for the years ended December 31, 2018, 2017 and 2016 are provided below.

Year Ended December 31, 2018 versus Year Ended December 31, 2017

Conventional Tanker 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 an original term of less than one year). Our conventional tanker commercial management and technical management operations results are also included in our conventional tanker segment.

The following table presents our operating results for the years ended December 31, 2018 and 2017 and compares net revenues, a non-GAAP financial measure, for those periods to revenues, the most directly comparable GAAP financial measure.

	Year Ended December 31,		
(in thousands of U.S. dollars, except percentages)	2018	2017 (1)	% Change
Revenues	720,076	391,267	84 %
Less: voyage expenses (2)	(373,064)	(87,879)	325 %
Net revenues	347,012	303,388	14 %
Vessel operating expenses	(174,278)	(135,740)	28 %
Time-charter hire expense	(13,537)	(25,666)	(47)%
Depreciation and amortization	(114,062)	(95,433)	20 %
General and administrative expenses	(36,481)	(29,539)	24 %
Loss on sale of vessels	—	(13,034)	(100)%
Restructuring charges	(152)	—	100 %
Income from vessel operations	8,502	3,976	114 %
Equity income (loss)	1,220	(25,370)	(105)%

(1) The comparative period does not include the impact of the January 1, 2018 adoption of ASU 2014-09. Please refer to Item 18 - Financial Statements: Note 2 - Recent Accounting Pronouncements.

(2) Includes $12.5 million and $10.5 million of voyage expenses for the years ended December 31, 2018 and 2017, respectively, relating to lightering support services which the STS transfer segment provided to the conventional tanker segment for FSL operations.

Tanker Market

Crude tanker spot rates were at multi-year lows during the first half of 2018 as OPEC supply cuts took their toll on tanker demand. However, the market appeared to reach an inflection point in the middle of the year, as an increase in oil supply from both OPEC and non-OPEC sources, and a period of lower fleet growth, allowed rates to recover.

Crude tanker spot rates improved significantly during the fourth quarter of 2018, spurred by both winter market seasonality and positive underlying supply / demand fundamentals. In the fourth quarter of 2018, OPEC crude oil production rose to 33.0 million barrels per day (mb/d), the highest level since July 2017 and up from 32.0 mb/d earlier in the year. Russian oil production reached a record high 11.5 mb/d by the end of the year, which was positive for mid-size tanker demand in the Mediterranean / Black Sea and Baltic Sea regions. Rising U.S. exports was also supportive of crude tanker demand, with US crude oil production reaching a record high 11.7 mb/d during the fourth quarter and crude oil exports reaching 2.5 mb/d. This was positive for both crude tanker demand, as well as lightering demand in the US Gulf.

Crude tanker spot rates have softened through the first quarter of 2019, which is typical for this time of year as refineries enter into seasonal maintenance programs. OPEC supply cuts are also weighing on crude tanker demand, with OPEC (plus select non-OPEC partners) pledging to cut production by 1.2 mb/d starting in January 2019. Early data suggests that OPEC is achieving high compliance with these cuts, which is negative for crude tanker demand in the near-term. We expect OPEC cuts to have a negative impact on crude tanker demand through the first half of the year, though the oil market is reasonably well balanced, and we believe that OPEC will have to return oil to the market during the second half of the year when oil demand is expected to increase substantially versus first half levels.

The global tanker fleet grew by just 5.7 million deadweight tonnes (mdwt), or 1.0%, in 2018, which was the lowest level of tanker fleet growth since 2001. High tanker scrapping was the main driver of low fleet growth in 2018, with a total of 22.4 mdwt removed (the fifth highest scrapping year on record). Looking ahead, we expect an increase in tanker fleet growth during 2019 as a firmer freight rate environment should lead to relatively fewer vessels sold for scrap. We expect total tanker fleet growth of approximately 3.5% during 2019, with much of this growth weighted towards the first half of the year. This will further add to pressure on the crude tanker market during the early part of the year, although it paves the way for much lower fleet growth in the second half of 2019 and into 2020, when we forecast that the global tanker fleet will grow by less than 2%.

Global oil demand remains firm, with the IEA forecasting growth of 1.4 mb/d growth in 2019. Furthermore, we expect that tanker demand will be boosted in 2019 by an increase in global refining capacity. According to the IEA, a total of 2.6 mb/d of new refining capacity will come online in 2019, which is the largest annual increase on record. This should be positive for both crude and product tanker demand. We also expect that the new IMO 2020 regulations will be positive for tanker demand, as it should lead to an increase in refinery throughput. The new regulations could also open up a number of new trade patterns and arbitrage opportunities for both crude and product, which would be beneficial for overall tonne-mile demand. Finally, new pipeline capacity to the U.S. Gulf Coast is expected to lift U.S. crude exports during the second half of 2019 from approximately 2.5 mb/d at present to approximately 4 mb/d, which is expected to be beneficial for both crude tanker demand and U.S. Gulf lightering demand.

In summary, we believe that OPEC supply cuts, higher fleet growth, and the impact of seasonal refinery maintenance could weigh on tanker demand through the first half of the year. However, we believe that this will give way to a much stronger second half of 2019 and 2020 due to strong underlying oil demand, an increase in US crude oil exports, the return of OPEC crude oil supply, lower tanker fleet growth, and the positive impact of IMO 2020.

Fleet and TCE Rates

As at December 31, 2018, we owned 56 double-hulled conventional oil tankers, had time-chartered in three Aframax tankers and owned a 50% interest in one VLCC, the results of which are included in equity income (loss). The number of vessels we own, as well as our financial and operational results, include the Entities under Common Control in all relevant periods presented. Please read Item 18 - Financial Statements: Note 4 - Acquisition of Entities under Common Control included in the notes to our consolidated financial statements included in this Annual Report.

As defined and discussed above, we calculate TCE rates as net revenue per revenue day before related-party pool management fees and pool commissions, and off-hire bunker expenses. The following tables outline the average TCE rates earned by vessels for 2018 and 2017:

	Conventional Tanker Segment Year Ended December 31, 2018					
	Revenues (1)(2)	Voyage Expenses (1)(3)	Adjustments (4)	TCE Revenues	Revenue Days	Average TCE per Revenue Day (4)
	(in thousands)	(in thousands)	(in thousands)	(in thousands)		
Voyage-charter contracts - Suezmax	$359,711	($202,639)	$1,144	$158,216	9,795	$16,154
Voyage-charter contracts - Aframax (5)	$236,137	($148,629)	$915	$88,423	5,515	$16,034
Voyage-charter contracts - LR2	$71,175	($36,172)	$154	$35,157	2,488	$14,131
Time-charter out contracts - Suezmax	$16,899	($606)	$204	$16,497	819	$20,144
Time-charter out contracts - Aframax	$35,602	($566)	$470	$35,506	1,674	$21,216
Time-charter out contracts - LR2	$7,357	($94)	$4	$7,267	420	$17,287
Total	$726,881	($388,706)	$2,891	$341,066	20,711	$16,469

(1) The impact of our January 1, 2018 adoption of ASU 2014-09 increased revenues and voyage expenses by $292.5 million for 2018. Please refer to Item 1 – Financial Statements: Note 2 – Recent Accounting Pronouncements for further details.

(2) Excludes $5.9 million of commissions and management fees earned from TTOL from the management of external vessels trading in RSAs and $2.9 million of bunker commissions earned.

(3) Includes $12.5 million of inter-segment voyage expenses relating to lightering support services provided by the STS transfer segment and $15.6 million of voyage expenses incurred by the vessels that were internally chartered from the RSA to perform full service lightering.

(4) Average TCE per Revenue Day excludes off-hire bunker and other expenses (income) included as part of the adjustments.

(5) Includes $104.9 million of revenues and $80.6 million of voyage expenses related to the full service lightering business, which includes $12.5 million of inter-segment voyage expenses referenced in note 3 relating to the full

service lightering business by the STS transfer segment.

	Conventional Tanker Segment Year Ended December 31, 2017					
	Revenues (1)	Voyage Expenses (2)	Adjustments (3)	TCE Revenues	Revenue Days	Average TCE per Revenue Day (3)
	(in thousands)	(in thousands)	(in thousands)	(in thousands)		
Voyage-charter contracts - Suezmax	$98,550	($5,618)	$525	$93,457	5,621	$16,627
Voyage-charter contracts - Aframax (4)	$141,763	($80,220)	$727	$62,270	3,956	$15,739
Voyage-charter contracts - LR2	$25,353	($141)	$306	$25,518	1,771	$14,407
Voyage-charter contracts - MR	$11	—	($10)	$1	—	—
Time-charter out contracts - Suezmax	$45,745	($932)	$18	$44,831	1,853	$24,198
Time-charter out contracts - Aframax	$50,964	($686)	$151	$50,429	2,283	$22,085
Time-charter out contracts - LR2	$15,391	($265)	($13)	$15,113	837	$18,063
Total	$377,777	($87,862)	$1,704	$291,619	16,321	$17,867

(1) Excludes $10.4 million of commissions and management fees earned by TTOL from the management of external vessels trading in the RSAs, $2.6 million of bunker commissions earned and $0.6 million of revenue earned from a profit-sharing agreement.

(2) Includes $10.5 million of inter-segment voyage expenses relating to lightering support services provided by the STS transfer segment.

(3) Average TCE per Revenue Day excludes off-hire bunker and other expenses (income) included as part of the adjustments.

(4) Includes $92.8 million of revenues and $72.4 million of voyage expenses related to the full service lightering business, which include $10.5 million of inter-segment voyage expenses referenced in note 2 relating to the full service lightering business by the STS transfer segment.

Net Revenues. Net revenues increased to $347.0 million for 2018 from $303.4 million for 2017, primarily due to:

- a net increase of $67.4 million primarily due to the addition of 18 vessels that we acquired as part of our merger with Tanker Investments Ltd. (or TIL), which was completed in the fourth quarter of 2017, and the addition of five Aframax in-chartered tankers that were delivered to us during 2018, partially offset by the redeliveries of various in-chartered tankers to their owners at various times during 2017 and the sales of one Suezmax tanker and three Aframax tankers in 2017;
- an increase of $3.9 million due to an increase in the number of voyages related to our full service lightering operations in 2018 compared to 2017; and
- a net increase of $0.9 million due to a higher average realized spot tanker rates earned by our Aframax tankers, partially offset by lower average realized spot tanker rates earned by our Suezmax and LR2 tankers in 2018 compared to 2017;

partially offset by

- a net decrease of $19.9 million due to the expiry of time-charter out contracts for various vessels which subsequently traded on spot voyages at lower average realized rates in 2018 compared to 2017;
- a decrease of $4.5 million due to lower commissions and management fees earned from TTOL from the management of fewer external vessels trading in the RSAs in 2018 compared to 2017; and
- a net decrease of $4.0 million due to more off-hire days, higher off-hire bunker and other expenses in 2018 compared to 2017.

Vessel Operating Expenses. Vessel operating expenses increased to $174.3 million for 2018 from $135.7 million for 2017, primarily due to:

- an increase of $50.7 million primarily due to the addition of 18 vessels that we acquired in the merger with TIL in November 2017;

partially offset by

- a decrease of $7.6 million primarily resulting from the sales of three Aframax tankers and two Suezmax tankers during 2017;
- a decrease of $3.1 million due to the scope of repairs and planned maintenance activities in 2018 as compared to 2017; and
- a decrease of $1.6 million primarily due to lower port expenses and insurance premiums paid in 2018 as compared to 2017.

Time-charter Hire Expense. Time-charter hire expense decreased to $13.5 million for 2018 from $25.7 million for 2017, primarily due to seven Aframax tankers and one LR2 product tanker redelivering back to their respective owners in 2017, partially offset by the addition of five Aframax tankers we in-chartered during 2018 and the fourth quarter of 2017, and a higher number of revenue days related to drydocking of one Aframax tanker.

Depreciation and Amortization. Depreciation and amortization increased to $114.1 million for 2018 from $95.4 million for 2017. The increase primarily relates to the addition of 18 vessels in November 2017 due to the merger with TIL