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

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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;

- 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.

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

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(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			