

TEEKAY TANKERS LTD.

Form 6-K

September 10, 2010

Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 6-K**

**Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2010  
Commission file number 1- 33867  
TEEKAY TANKERS LTD.**

(Exact name of Registrant as specified in its charter)  
4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda  
(Address of principal executive office)

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

Form 20-F  Form 40-F

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

Yes  No

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

Yes  No

---

**TEEKAY TANKERS LTD.**  
**REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010**  
**INDEX**

	PAGE
<b><u>PART I: FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements (Unaudited)</u></b>	
<u>Unaudited Consolidated Statements of Income</u> <u>for the three months and six months ended June 30, 2010 and 2009</u>	3
<u>Unaudited Consolidated Balance Sheets</u> <u>as at June 30, 2010 and December 31, 2009</u>	4
<u>Unaudited Consolidated Statements of Cash Flows</u> <u>for the six months ended June 30, 2010 and 2009</u>	5
<u>Unaudited Consolidated Statement of Changes in Stockholders' / Owner's Equity</u> <u>for the six months ended June 30, 2010</u>	6
<u>Notes to the Unaudited Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	22
<b><u>PART II: OTHER INFORMATION</u></b>	23
<b><u>SIGNATURES</u></b>	24
Exhibits	
<u>Exhibit 4.11</u>	
<u>Exhibit 4.12</u>	
<u>Exhibit 4.13</u>	
<u>Exhibit 4.14</u>	

**Table of Contents**

**TEEKAY TANKERS LTD.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands of U.S. dollars, except share and per share amounts)

	<b>Three months Ended June 30, 2010 \$ (notes 1,2)</b>	<b>Three months Ended June 30, 2009 \$ (notes 1,2)</b>	<b>Six months Ended June 30, 2010 \$ (notes 1,2)</b>	<b>Six months Ended June 30, 2009 \$ (notes 1,2)</b>
<b>REVENUES</b>				
Time charter revenues (\$3.0 million, \$3.5 million, \$5.9 million, and \$7.0 million for 2010 and 2009, respectively, from affiliates) <i>(note 8e)</i>	20,885	22,458	43,577	43,852
Net pool revenues from affiliates <i>(note 8h)</i>	11,032	15,157	22,942	37,822
<b>Total revenues</b>	<b>31,917</b>	<b>37,615</b>	<b>66,519</b>	<b>81,674</b>
<b>OPERATING EXPENSES</b>				
Voyage expenses (\$0.6 million, \$0.7 million, \$1.3 million, and \$1.6 million for 2010 and 2009, respectively, from related parties) <i>(note 8f and 8h)</i>	784	545	1,572	1,224
Vessel operating expenses (\$5.3 million, \$5.8 million, \$11.3 million, and \$11.5 million for 2010 and 2009, respectively, from related parties) <i>(note 8f and 8g)</i>	9,239	9,944	19,828	20,309
Depreciation and amortization	9,781	9,799	19,869	19,450
General and administrative (\$1.4 million, \$2.1 million, \$3.2 million, and \$4.0 million for 2010 and 2009, respectively, from related parties) <i>(note 8b and 8f)</i>	1,746	2,493	4,023	4,706
Gain on sale of vessel <i>(note 10)</i>	(37)		(37)	
<b>Total operating expenses</b>	<b>21,513</b>	<b>22,781</b>	<b>45,255</b>	<b>45,689</b>
<b>Income from vessel operations</b>	<b>10,404</b>	<b>14,834</b>	<b>21,264</b>	<b>35,985</b>
<b>OTHER ITEMS</b>				
Interest expense (\$0.5 million, \$1.3 million, \$1.2 million, and \$2.7 million for 2010 and 2009, respectively, from related parties) <i>(note 8c)</i>	(1,607)	(3,035)	(3,266)	(6,665)
Interest income	24	26	36	48
	(6,705)	5,475	(9,363)	6,843

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

Realized and unrealized (loss) gain on derivative instrument <i>(note 6)</i>				
Other income (loss) net	5	(81)	(392)	(293)
Total other items	(8,283)	2,385	(12,985)	(67)
Net income	2,121	17,219	8,279	35,918
Per common share amounts:				
Basic and diluted earnings <i>(note 9)</i>	0.05	0.64	0.20	1.20
Cash dividends declared	0.37	0.59	0.63	1.31
Weighted-average number of Class A and Class B common shares outstanding				
Basic and diluted <i>(note 9)</i>	42,265,088	25,461,538	37,160,901	25,232,044

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

**Table of Contents**

**TEEKAY TANKERS LTD.**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**  
(in thousands of U.S. dollars)

	As at June 30, 2010 \$	As at December 31, 2009 \$ (notes 1,2)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	8,653	10,432
Pool receivables from affiliates, net ( <i>note 8h</i> )	6,376	11,828
Accounts receivable	1,236	253
Due from affiliates ( <i>notes 8d and 8g</i> )	9,147	78,838
Prepaid expenses	2,545	2,618
Other current assets	115	268
<b>Total current assets</b>	<b>28,072</b>	<b>104,237</b>
Vessels and equipment		
At cost, less accumulated depreciation of \$166.4 million (2009 \$164.3 million)	679,803	709,141
Non-current amounts due from affiliates ( <i>notes 8d and 8h</i> )	1,907	2,165
Other non-current assets	1,867	2,403
Goodwill	10,908	10,908
<b>Total assets</b>	<b>722,557</b>	<b>828,854</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY / OWNER'S EQUITY</b>		
<b>Current</b>		
Accounts payable	2,242	2,385
Accrued liabilities ( <i>note 8g</i> )	9,770	10,598
Current portion of long-term debt ( <i>note 5</i> )	3,600	5,400
Current portion of derivative instrument ( <i>note 6</i> )	3,723	3,865
Deferred revenue	3,094	4,271
Due to affiliates ( <i>notes 8d and 8g</i> )	1,459	
Other current liabilities	277	402
<b>Total current liabilities</b>	<b>24,165</b>	<b>26,921</b>
Long-term debt ( <i>note 5</i> )	321,828	475,331
Derivative instrument ( <i>note 6</i> )	16,878	10,028
Other long-term liabilities	254	392

<b>Total liabilities</b>	363,125	512,672
<b>Stockholders' Equity / Owner's Equity</b>		
Common stock and additional paid-in capital (300 million shares authorized; 30.9 million Class A and 12.5 million Class B shares issued and outstanding as of June 30, 2010 and 19.5 million Class A and 12.5 million Class B shares issued and outstanding as of December 31, 2009) ( <i>note 7</i> )	381,673	246,753
Retained earnings (accumulated deficit) and owner's equity in Dropdown Predecessor	(22,241)	69,429
<b>Total stockholders' equity / owner's equity</b>	359,432	316,182
<b>Total liabilities and stockholders' equity / owner's equity</b>	722,557	828,854

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

**Table of Contents**

**TEEKAY TANKERS LTD.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands of U.S. dollars)

	<b>Six Months Ended June 30, 2010 \$ (notes 1, 2)</b>	<b>Six Months Ended June 30, 2009 \$ (notes 1, 2)</b>
Cash and cash equivalents provided by (used for)		
<b>OPERATING ACTIVITIES</b>		
Net income	8,279	35,918
Non-cash items:		
Depreciation and amortization	19,869	19,450
Unrealized loss (gain) on derivative instrument	6,708	(8,956)
Other	(376)	360
Change in non-cash working capital items related to operating activities	(4,905)	7,607
Expenditures for drydocking	(4,358)	(1,115)
<b>Net operating cash flow</b>	<b>25,217</b>	<b>53,264</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	22,000	
Repayment of long-term debt	(1,800)	(22,700)
Prepayment of long-term debt		(26,376)
Proceeds from long-term debt of Dropdown Predecessor <i>(note 2)</i>	8,357	20,068
Prepayment of long-term debt of Dropdown Predecessor <i>(note 2)</i>	(43,828)	(16,327)
Prepayment of push-down debt of Dropdown Predecessor <i>(note 2)</i>	(140,032)	(79,009)
Acquisition of <i>Helga Spirit LLC, Yamuna Spirit LLC and Kaveri Spirit LLC</i> from Teekay Corporation	(136,772)	
Acquisition of <i>Ashkini Spirit LLC</i> from Teekay Corporation		(57,781)
Contribution of capital from Teekay Corporation to Dropdown Predecessor	92,576	65,628
Net advances from affiliates	79,219	24,971
Proceeds from issuance of Class A common stock <i>(note 7)</i>	107,549	68,600
Share issuance costs	(4,629)	(3,045)
Cash dividends paid	(24,375)	(32,750)
<b>Net financing cash flow</b>	<b>(41,735)</b>	<b>(58,721)</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of vessel and equipment	17,546	
Expenditures for vessels and equipment	(2,807)	(3,666)



<b>Net investing cash flow</b>	14,739	(3,666)
<b>Decrease in cash and cash equivalents</b>	(1,779)	(9,123)
Cash and cash equivalents, beginning of the period	10,432	26,698
<b>Cash and cash equivalents, end of the period</b>	8,653	17,575

Supplemental cash flow information (*note 8a*)

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

Table of Contents

**TEEKAY TANKERS LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS / OWNER S EQUITY**  
(in thousands of U.S. dollars, except share amounts)

	STOCKHOLDERS EQUITY					
	Owner s Equity (Dropdown Predecessor) \$ (notes 1, 2)	Common Stock and Additional Paid-in Capital Thousands of Common Shares #	Class A \$	Class B \$	Retained Earnings / (Deficit) \$	Total \$
<b>Balance as at December 31, 2009</b>	109,911	32,000	246,628	125	(40,482)	316,182
Net income	959				7,320	8,279
Net change in parent s equity in Dropdown Predecessor	93,198					93,198
Proceeds from follow-on issuance of Class A common shares, net of offering costs of \$4.6 million (note 7)		11,392	134,920			134,920
Acquisition of <i>Helga Spirit LLC, Yamuna Spirit LLC, and Kaveri Spirit LLC</i> from Teekay Corporation (note 2)	(204,068)				35,296	(168,772)
Dividends declared to Teekay Corporation					(9,472)	(9,475)
Dividends declared to other parties					(14,903)	(14,900)
<b>Balance as at June 30, 2010</b>		<b>43,392</b>	<b>381,548</b>	<b>125</b>	<b>(22,241)</b>	<b>359,432</b>

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

**Table of Contents****TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)****1. Basis of Presentation**

The unaudited interim consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (or *GAAP*). These financial statements include the accounts of Teekay Tankers Ltd., its wholly owned subsidiaries and the Dropdown Predecessor, as defined in Note 2 (collectively the *Company*). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Company's audited consolidated financial statements filed on Form 20-F for the year ended December 31, 2009. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments, of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation. Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period as quantified in Note 8f.

**2. Dropdown Predecessor**

The Company accounts for the acquisition of interests in vessels from Teekay Corporation (or *Teekay*) as a transfer of a business between entities under common control. The method of accounting for such transfers is similar to the pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. The proceeds paid by the Company over or under Teekay's historical cost in the vessels is accounted for as a return of capital to or contribution of capital from Teekay. In addition, transfers of net assets between entities under common control are accounted for as if the transfer occurred from the date that the Company and the acquired vessels were both under the common control of Teekay and had begun operations. As a result, the Company's financial statements prior to the date the interests in these vessels were actually acquired by the Company are recast to include the results of these vessels operated during the periods under common control of Teekay.

On April 14, 2010, the Company acquired from Teekay its subsidiaries Kaveri Spirit L.L.C and Yamuna Spirit L.L.C., which each own a Suezmax-class tanker, the *Kaveri Spirit* and *Yamuna Spirit*, respectively. On May 11, 2010, the Company also acquired from Teekay a third subsidiary, Helga Spirit L.L.C. which owns an Aframax tanker, the *Helga Spirit*. Immediately preceding the sale of the Helga Spirit L.L.C. to the Company, Teekay contributed its beneficial ownership in the Charter to the Helga Spirit L.L.C. These transactions were accounted for as reorganizations between entities under common control. As a result, the Company's consolidated balance sheet as of December 31, 2009, consolidated statements of income for the three and six months ended June 30, 2010 and 2009 and the consolidated statements of cash flows for the six months ended June 30, 2010 and 2009 reflect the *Kaveri Spirit*, *Yamuna Spirit* and the *Helga Spirit* and their related operations as if the Company had acquired the two Suezmax vessels on August 1, 2007, and the Aframax tanker on January 6, 2005 when they began respective operations under the ownership of Teekay.

On June 24, 2009, the Company acquired from Teekay its subsidiary Ashkini Spirit L.L.C, which owns a Suezmax-class tanker, the *Ashkini Spirit*. This transaction was accounted for as a reorganization between entities under common control as described above. As a result, the Company's consolidated statements of income for the three and six months ended June 30, 2009 and cash flows for the six months ended June 30, 2009 reflect the *Ashkini Spirit* and its related operations as if the Company had acquired the vessel on August 1, 2007, when it began operations under the ownership of Teekay.

The effect of adjusting the Company's financial statements to account for these common control exchanges (referred to herein as the *Dropdown Predecessor*) increased the Company's vessels and equipment by \$202.8 million as of December 31, 2009; goodwill by \$4.1 million as of December 31, 2009; revenues for the three and six months ended June 30, 2010 and 2009, by \$1.7 million, \$9.4 million, \$9.1 million, \$22.7 million, respectively; and net (loss) income for the three and six months ended June 30, 2010 and 2009, by \$(0.1) million, and \$1.0 million, \$1.0 million, and \$5.5 million, respectively.

The accompanying consolidated financial statements include the financial position, results of operations and cash flows of the Dropdown Predecessor. In the preparation of these consolidated financial statements, general and administrative expenses and interest expense were not identifiable as relating solely to the specific vessel. General and administrative expenses (consisting primarily of salaries, share-based compensation, and other employee-related costs, office rent, legal and professional fees, and travel and entertainment) were allocated based on the Dropdown Predecessor's proportionate share of Teekay Corporation's total ship-operating (calendar) days for the period presented. During the three and six months ended June 30, 2010, \$0.5 million and \$1.2 million of interest expense and \$0.2 million and \$1.0 million of general and administrative expenses were attributable to the Dropdown Predecessor, respectively. During the three and six months ended June 30, 2009, \$1.3 million and \$2.7 million of interest expense and \$1.1 million and \$2.0 million of general and administrative expenses were attributable to the Dropdown Predecessor, respectively. Management believes these allocations reasonably present the interest expense and the general and administrative expenses of the Dropdown Predecessor. Estimates have been made when allocating expenses from Teekay Corporation to the Dropdown Predecessor and such estimates may not be reflective of actual results.

Table of Contents**TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**  
**(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)****3. Adoption of New Accounting Pronouncements**

In January 2010, the Company adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC 810*), *Consolidations* that eliminates certain exceptions to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity, and increases the frequency of required reassessments to determine whether a company is such a primary beneficiary. This amendment also contains a new requirement that any term, transaction, or arrangement that does not have a substantive effect on an entity's status as a variable interest entity, a company's power over a variable interest entity, or a company's obligation to absorb losses or its right to receive benefits of an entity must be disregarded. The elimination of the qualifying special-purpose entity concept and its consolidation exceptions means more entities will be subject to consolidation assessments and reassessments. During February 2010, the scope of the revised standard was modified to indefinitely exclude certain entities from the requirement to be assessed for consolidation. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

**4. Fair Value Measurements**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

**Cash and cash equivalents** The fair value of the Company's cash and cash equivalents approximates its carrying amounts reported in the consolidated balance sheets.

**Non-current amounts due from affiliates** The fair value of the non-current amounts due from affiliates approximates their carrying amounts reported in the accompanying consolidated balance sheets.

**Long-term debt** The fair value of the Company's fixed-rate and variable-rate long-term debt is based on quoted market prices or estimated using discounted cash flow analyses, based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Company.

**Derivative instrument** The fair value of the Company's interest rate swap agreement is the estimated amount that the Company would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of both the Company and the swap counterparty. The estimated amount is the present value of future cash flows. The inputs used to determine the future cash flows include the fixed interest rate of the swap, and market interest rates.

The Company categorizes its fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The estimated fair value of the Company's financial instruments and categorization using the fair value hierarchy for those assets and liabilities that are measured at fair value on a recurring basis is as follows:

	June 30, 2010		
	Fair Value Hierarchy Level <sup>(1)</sup>	Carrying Amount Asset/ (Liability) \$	Fair Value Asset/ (Liability) \$
Cash and cash equivalents		8,653	8,653
Non-current amounts due from affiliates		1,907	1,907

Long-term debt		(325,428)	(288,617)
Derivative instrument			
Interest rate swap agreement	Level 2	(20,601)	(20,601)

(1) The fair value hierarchy level is only applicable to each item on the consolidated balance sheets that is recorded at fair value on a recurring basis.

The Company has determined that there are no non-financial assets and liabilities carried at fair value at June 30, 2010.

### 5. Long-Term Debt

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	\$	\$
Revolving credit facility due 2017	299,328	277,328
Term Loan due through 2017	26,100	27,900
Long-term debt of Dropdown Predecessor ( <i>note 2</i> )		175,503
	325,428	480,731
Less current portion	3,600	5,400
Total	321,828	475,331

**Table of Contents****TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)  
(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)****5. Long-Term Debt (Cont d)**

The Company and Teekay Corporation are parties to a revolving credit facility (or the *Revolver*). The Company is a borrower under Tranche A of the Revolver (or the *Tranche A Revolver*) and certain 100%-owned subsidiaries of Teekay are borrowers under Tranche B of the Revolver (or the *Tranche B Revolver*). If any borrower under the Tranche B Revolver is acquired by the Company, the borrowings and amount available under the Tranche B Revolver that are related to the acquired entity will be added to the Tranche A Revolver, upon certain conditions being met.

As of June 30, 2010, the Tranche A Revolver provided for borrowings of up to \$516.0 million, which increased from \$401.0 million as of December 31, 2009, as a result of the 2010 acquisition of the Dropdown Predecessor (see Note 2). As at June 30, 2010, \$216.7 million of the available borrowings under the Tranche A Revolver was undrawn. The Revolver allows the Company to substitute different vessels as collateral. As a result, when the Company sold the *Falster Spirit* in April 2010, it was able to substitute the newly acquired *Helga Spirit* to maintain the amount of borrowings available under the revolving credit facility. The total amount available under the Tranche A Revolver reduces by a semi-annual amount of \$28.4 million commencing in late 2012, and the Tranche A Revolver matures in 2017. The Tranche A Revolver may be prepaid at any time in amounts of not less than \$5.0 million. Interest payments are based on LIBOR plus a margin of 0.60%. As at June 30, 2010, the weighted-average interest rate on the Revolver was 1.05% (December 31, 2009 1.09%). The Tranche A Revolver is collateralized by first-priority mortgages granted on 12 of the Company's vessels, together with other related security, and includes a guarantee from the Company for all outstanding amounts. The Tranche A Revolver requires that the Company and certain of its subsidiaries maintain minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with more than six months to maturity) of \$35.0 million and at least 5.0% of the Company's total debt. As at June 30, 2010, the Company was in compliance with all its covenants on the Tranche A Revolver.

As at December 31, 2009, the Dropdown Predecessor had \$175.5 million of long-term debt, which included \$43.8 million of debt from the Tranche B Revolver and \$131.7 million of debt from other credit facilities of Teekay. On the dates of the respective dropdowns of the *Yamuna Spirit*, *Kaveri Spirit*, and *Helga Spirit*, Teekay repaid all its external related debt outstanding and the pushed-down debt was extinguished through a return of capital.

As at June 30, 2010, the Company had one term loan outstanding in the amount of \$26.1 million. This term loan bears interest at a fixed-rate of 4.06%, requires quarterly principal payments of \$0.9 million, and is collateralized by first-priority mortgages on two of the Company's vessels, together with certain other related security. The term loan is guaranteed by Teekay Corporation. The term loan requires that the Company and certain of its subsidiaries maintain a minimum hull coverage ratio of 115% of the total outstanding balance for the facility period. As at June 30, 2010, the Company was in compliance with all its covenants on its term loan.

The aggregate annual long-term debt principal repayments required to be made by the Company under the Tranche A Revolver and term loan subsequent to June 30, 2010 are \$1.8 million (remaining 2010), \$3.6 million (2011), \$3.6 million (2012), \$3.6 million (2013), \$3.6 million (2014) and \$309.2 million (thereafter).

The weighted-average effective interest rate on the Company's long-term debt as at June 30, 2010 was 1.29% (December 31, 2009 1.17%). This rate does not reflect the effect of the interest rate swap (see Note 6).

**6. Derivative Instruments**

The Company uses derivatives in accordance with its overall risk management policies. The Company enters into interest rate swaps which exchange a receipt of floating interest for a payment of fixed interest to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. The Company has not designated, for accounting purposes, its interest rate swap as a cash flow hedge of its U.S. Dollar LIBOR-denominated borrowings.

Realized and unrealized (losses) gains relating to the Company's interest rate swap have been reported in realized and unrealized (losses) gains on derivative instrument in the consolidated statements of income. During the three and six months ended June 30, 2010, the Company recognized unrealized losses of \$5.4 million and \$6.7 million, respectively, and realized losses of \$1.3 million and \$2.7 million, respectively, relating to its interest rate swap.

During the three and six months ended June 30, 2009, the Company recognized unrealized gains of \$6.6 million and \$9.0 million, respectively, and realized losses of \$1.1 million and \$2.2 million, respectively, relating to its interest rate swap.

The following summarizes the Company's derivative position as at June 30, 2010:

	<b>Interest Rate Index</b>	<b>Principal Amount \$</b>	<b>Fair Value / Carrying Amount Asset / (Liability) \$</b>	<b>Weighted- Average Remaining Term (Years)</b>	<b>Fixed Interest Rate (%)<sup>(1)</sup></b>
<b>LIBOR-Based Debt:</b>					
U.S. Dollar-denominated interest rate swap	USD LIBOR 3M	100,000	(20,601)	7.3	5.55

(1) Excludes the margin the Company pays on its variable-rate debt, which as of June 30, 2010 was 0.6%.



**Table of Contents****TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**  
**(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)****6. Derivative Instruments (Cont d)**

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

**7. Capital Stock**

On June 24, 2009, the Company completed a follow-on public offering of 7.0 million Class A common shares at a price of \$9.80 per share, for gross proceeds of \$68.6 million. The Company used the net offering proceeds of \$65.5 million to acquire a 2003-built Suezmax tanker, the *Ashkini Spirit*, from Teekay Corporation for \$57.0 million. In April 2010, the Company completed a follow-on public offering of 8.8 million shares of its Class A common stock (including 1,079,500 common shares issued upon the partial exercise of the underwriter's overallotment option) at a price of \$12.25 per share, for gross proceeds of \$107.5 million. Concurrently with the public offering, the Company issued 2,612,244 unregistered shares of Class A common stock to Teekay Corporation at a price of \$12.25 per share for gross proceeds of \$32.0 million. The total number of Class A common shares outstanding increased by 11,391,744 shares to a total of 30,891,744 as at June 30, 2010. The total number of Class B common shares outstanding did not change as a result of the follow-on offering and remains at 12.5 million.

As at June 30, 2010 and December 31, 2009, the Company had reserved under its 2007 Long-Term Incentive Plan a total of 1,000,000 shares of Class A common stock for issuance pursuant to awards to be granted. To date, the Company has satisfied awards under the plan through open market purchases and deliveries to the grantees, rather than issuing shares from authorized capital. For the three months and six months ended June 30, 2010, nil and 19,371 shares of Class A common stock were granted and delivered to non-management Directors as part of the Directors annual compensation, respectively. For the three and six months ended June 30, 2009, nil and 28,178 shares of Class A common stock were granted and delivered to non-management Directors as part of the Directors annual compensation, respectively. As at June 30, 2010 and December 31, 2009, total of 60,802 shares and 41,431 shares of Class A common stock, respectively, have been granted under the plan and delivered to non-management Directors as part of the Directors annual compensation since the commencement of the plan in December 2007.

**8. Related Party Transactions**

- a. On April 14, 2010, the Company acquired from Teekay Corporation its subsidiaries Kaveri Spirit L.L.C. and Yamuna Spirit L.L.C., which each owns a Suezmax tanker, the *Kaveri Spirit* and the *Yamuna Spirit*, respectively for a total of \$124.2 million. On May 11, 2010, the Helga Spirit L.L.C., which owns an Aframax tanker, the *Helga Spirit*, was sold from Teekay Corporation to Teekay Tankers for \$44.5 million. Preceding the sale of the Helga Spirit L.L.C. to Teekay Tankers, Teekay Corporation contributed a beneficial interest in the vessel's time charter to the Helga Spirit L.L.C. As described in Note 2, the acquisitions were accounted for as reorganizations of entities under common control and accounted for on a basis similar to the pooling of interest basis. The consideration consisted of \$136.8 million in cash and 2.6 million shares of our Class A common stock, with a value of \$32.0 million. The issuance of the 2.6 million Class A common stock has been reflected as a non-cash transaction in our statement of cash flow for the six months ended June 30, 2010. The portion of the purchase price paid in cash was financed with net proceeds of a follow-on public offering of \$102.9 million (see Note 7), and the net proceeds of \$17.3 million from the sale of the *Falster Spirit* (see Note 10) as well as using \$9.2 million of the Company's working capital and drawing \$7.0 million on the Tranche A Revolver (see Note 5).
- b. During the three and six months ended June 30, 2010, \$0.2 million and \$1.0 million of general and administrative expenses attributable to the operations of the Dropdown Predecessor were incurred by Teekay Corporation and have been allocated to the Company. During the three and six months ended June 30, 2009, \$1.1 million and \$2.0 million of general and administrative expenses attributable to the operations of the

Dropdown Predecessor were incurred by Teekay Corporation and have been allocated to the Company.

- c. During the three and six months ended June 30, 2010, \$0.5 million and \$1.2 million of interest expenses attributable to the operations of the Dropdown Predecessor were incurred by Teekay Corporation and have been allocated to the Company. During the three and six months ended June 30, 2009, \$1.3 million and \$2.7 million of interest expenses attributable to the operations of the Dropdown Predecessor were incurred by Teekay Corporation and have been allocated to the Company.
- d. The amounts due to and from affiliates at June 30, 2010 and December 31, 2009, are without interest or stated terms of repayment.
- e. During the three and six months ended June 30, 2010, \$3.0 million and \$5.9 million, respectively, of revenues were earned as a result of the Company chartering out the *Nassau Spirit* to Teekay Corporation under a fixed-rate time-charter contract. During the three and six months ended June 30, 2009, \$3.5 million and \$7.0 million, respectively, of revenues were earned as a result of the Company chartering out the *Nassau Spirit* to Teekay Corporation under a fixed-rate time-charter contract. In August 2009, the Company exercised its option to extend the time-charter contract by one year. The time-charter contract for the *Nassau Spirit* expired on July 28, 2010 and has now been replaced by a 12-month external time-charter contract starting immediately after the expiration of the internal time-charter contract.

Table of Contents**TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)  
(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)****8. Related Party Transactions (Cont d)**

- f. Pursuant to a long-term management agreement with Teekay Tankers Management Services Ltd., a wholly owned subsidiary of Teekay Corporation (the *Manager*), the Company incurred total management fees of \$1.7 million and \$3.1 million for the three and six months ended June 30, 2010, respectively, and \$1.3 million and \$2.7 million for the three and six months ended June 30, 2009, respectively, for commercial, technical, strategic, administrative services and performance fees. The commercial services portion of the management fee of \$0.3 million and \$0.5 million for the three and six months ended June 30, 2010, respectively, and \$0.2 million and \$0.5 million for the three and six months ended June 30, 2009, respectively, have been recorded as voyage expenses. A portion of the technical management fee that represents crew training costs are recorded in vessel operating expenses in the amounts of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2010, respectively, and \$0.1 million and \$0.2 million for the three and six months ended June 30, 2009, respectively. Crew training costs were previously recorded in general and administrative expenses in the prior year and have been reclassified to vessel operating expenses for comparative purposes in the consolidated statements of income. The remainder of the management fees is included in general and administrative expenses and for the three and six months ended June 30, 2010 were \$1.2 million and \$2.2 million, respectively, and for the three and six months ended June 30, 2009 were \$1.0 million and \$2.0 million, respectively.

The Company's executive officers are employees of Teekay Corporation or other subsidiaries thereof, and their compensation (other than any awards under the Company's long-term incentive plan described in Note 7) is set and paid by Teekay Corporation or such other subsidiaries. The Company reimburses Teekay Corporation for time spent by its executive officers on the Company's management matters through the strategic portion of the management fee. The strategic management fee reimbursement for the three and six months ended June 30, 2010 were \$0.3 million and \$0.5 million, respectively, and for the three and six months ended June 30, 2009 were \$0.3 million and \$0.6 million, respectively.

The management agreement provides for payment to the Manager of a performance fee in certain circumstances. If Gross Cash Available for Distribution for a given fiscal year exceeds \$3.20 per share of the Company's weighted average outstanding common stock (or the *Incentive Threshold*), the Company is generally required to pay a performance fee equal to 20% of all Gross Cash Available for Distribution for such year in excess of the Incentive Threshold. The Company did not incur any performance fees for the three and six months ended June 30, 2010 and 2009. *Cash Available for Distribution* represents net income plus depreciation and amortization, unrealized losses from derivatives, non-cash items and any write-offs or other non-recurring items, less unrealized gains from derivatives and net income attributable to the historical results of vessels acquired by the Company from Teekay Corporation, prior to their acquisition by us, for the period when these vessels were owned and operated by Teekay Corporation. *Gross Cash Available for Distribution* represents Cash Available for Distribution without giving effect to any deductions for performance fees and reduced by the amount of any reserves the Company's board of directors may establish during the applicable fiscal period that have not already reduced the Cash Available for Distribution. Reserves applicable for each of the three months ended March 31 and June 30, 2010 included a \$1.2 million drydocking and capital upgrades reserve, and a \$0.9 million reserve for loan principal repayment. Reserves for each of the three months ended March 31 and June 30, 2009 included a \$2.0 million drydocking reserve and a \$0.9 million reserve for loan principal repayment.

- g. In addition to the management fees paid to the Manager for services provided under the long-term management agreement with the Manager as described in Note 8f, the Company also incurred crewing and manning costs which are recorded in vessel operating expenses on the consolidated statements of income.

For the three and six months ended June 30, 2010, the Company incurred \$5.1 million and \$10.9 million, respectively, for crewing and manning costs, of which \$1.6 million was payable to the Manager as reimbursement for its related expenses as at June 30, 2010 and included in accrued liabilities on the consolidated balance sheets. For the three and six months ended June 30, 2009, the Company incurred \$5.7 million and \$11.3 million, respectively, for crewing and manning costs, of which \$2.2 million was payable to the Manager as at December 31, 2009 and included in accrued liabilities on the consolidated balance sheets.

The Manager is also responsible for the daily operational activities of the Company's vessels. The Manager collects revenues and remits payments for expenses incurred by the vessels for various voyages. As a result of these transactions, the balance due from the Manager was \$9.1 million and \$78.8 million as at June 30, 2010 and December 31, 2009, respectively and the balance due to the Manager was \$1.5 million and \$nil as at June 30, 2010 and December 31, 2009, respectively.

- h. Pursuant to pooling arrangements managed by certain wholly-owned subsidiaries of Teekay (collectively the *Pool Managers*), the Company incurred pool management fees during the three and six months ended June 30, 2010 of \$0.3 million and \$0.8 million, respectively, and during the three and six months ended June 30, 2009, of \$0.5 million and \$1.1 million, respectively, with respect to Company vessels that participate in the pooling arrangements. The Pool Managers provide commercial services to the pool participants and administer the pools in exchange for a fee currently equal to 1.25% of the gross revenues attributable to each pool participant's vessels and a fixed amount per vessel per day which ranges from \$275 (for the Suezmax tanker pool) to \$350 (for the Aframax tanker pool). Voyage revenues and voyage expenses of the Company's vessels operating in these pool arrangements are pooled with the voyage revenues and voyage expenses of other pool participants. The resulting net pool revenues, calculated on a time-charter equivalent basis, are allocated to the pool participants according to an agreed formula. The Company accounts for the net allocation from the pools as net pool revenues from affiliates on the consolidated statements of income. For the three and six months ended June 30, 2010, the Company's allocation from the pools were net of \$3.3 million and \$9.6 million, respectively, of voyage expense. For the three and six months ended June 30, 2009, the Company's allocation from the pools were net of \$4.3 million and \$8.4 million, respectively, of voyage expense. The pool receivable from affiliates as at June 30, 2010 and December 31, 2009 was \$6.4 million and \$11.8 million, respectively.

**Table of Contents****TEEKAY TANKERS LTD.****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**  
**(all tabular amounts stated in thousands of U.S. dollars, other than share or per share data)****8. Related Party Transactions (Cont d)**

As at June 30, 2010 and December 31, 2009, the Company had advanced \$1.9 million and \$2.2 million, respectively, to the Pool Managers for working capital purposes. The Company may be required to advance additional working capital funds from time to time. Working capital advances will be returned to the Company when a vessel no longer participates in the applicable pool, less any set-offs for outstanding liabilities or contingencies. These advances are without interest or stated terms of repayment.

**9. Earnings Per Share**

The net income available for common stockholders and earnings per common share presented in the table below excludes the results of operations of the Dropdown Predecessor (*see Note 2*).

	Three Months Ended		Six Months Ended	
	June 30, 2010 \$	June 30, 2009 \$	June 30, 2010 \$	June 30, 2009 \$
Net income	2,121	17,219	8,279	35,918
Less: Net (loss) income attributable to the Dropdown Predecessor	(119)	981	959	5,547
Net income available for common stockholders	2,240	16,238	7,320	30,371
Weighted-average number of common shares	42,265,088	25,461,538	37,160,901	25,232,044
Common shares and common share equivalents outstanding at end of period	43,391,744	32,000,000	43,391,744	32,000,000
Earnings per common share:				
- Basic and diluted	0.05	0.64	0.20	1.20

**10. Vessel Sales**

On April 14, 2010, the Company sold an Aframax tanker, the 1995-built *Falster Spirit* which was trading in the Teekay Aframax Pool. The vessel was sold for \$17.3 million, resulting in a gain on disposal of \$37,000.

**11. Accounting Pronouncements Not Yet Adopted**

In September 2009, the FASB issued an amendment to FASB ASC 605, *Revenue Recognition*, that provides for a new methodology for establishing the fair value for a deliverable in a multiple-element arrangement. When vendor specific objective or third-party evidence for deliverables in a multiple-element arrangement cannot be determined, the Company will be required to develop a best estimate of the selling price of separate deliverables and to allocate the arrangement consideration using the relative selling price method. This amendment will be effective for the Company on January 1, 2011, although earlier adoption is possible. The Company is currently assessing the potential impacts, if any, of this amendment on its consolidated financial statements.

In July 2010, the FASB issued an amendment to FASB ASC 310, *Receivables*, that requires companies to provide more information in their disclosures about the credit quality of their financing receivables and the credit reserves held against them. The amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a

reporting period are effective for periods beginning on or after December 15, 2010. The Company is currently assessing the potential impacts, if any, of these amendments on its consolidated financial statements.

**12. Subsequent Events**

- a. On July 16, 2010, the Company made loans totaling \$115 million to a third party shipowner (the *Loans*). The Loans bear interest at an annual interest rate of 9% per annum and have a fixed term of three years. The Loans are repayable in full, together with a 3% premium of the Loans then outstanding, on maturity and are collateralized by first priority mortgages on two 2010-built Very Large Crude Carriers owned by the shipowner.

On July 22, 2010, the Company entered into two interest rate swap agreements. One has a notional principal amount of \$70.0 million, a fixed rate of 0.85% per annum and a term of two years. The other has a notional principal amount of \$45.0 million, a fixed rate of 1.19% per annum and a term of three years. Both interest rate swap agreements require quarterly settlements.

- b. On August 11, 2010, the Company entered into an agreement to sell a 1995-built Aframax tanker, the *Sotra Spirit*, for \$17.2 million and the vessel sale occurred on August 26, 2010. The expected accounting loss on the sale of the vessel is approximately \$1.5 million and will be recorded in the Company's third quarter results.

**Table of Contents**

**TEEKAY TANKERS LTD.**

**JUNE 30, 2010**

**PART I FINANCIAL INFORMATION**

**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in Item 1 Financial Statements of this Report on Form 6-K and with our audited consolidated financial statements contained in Item 17 Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 5 Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the year ended December 31, 2009.

**General**

Our business is to own oil tankers and we employ a chartering strategy that seeks to capture upside opportunities in the tanker spot market while using fixed-rate time charters to reduce downside risks. Historically, the tanker industry has experienced volatility in profitability due to changes in the supply of, and demand for, tanker capacity. Tanker supply and demand are each influenced by several factors beyond our control. We were formed in October 2007 by Teekay Corporation (NYSE: TK) (*Teekay*) a leading provider of marine services to the global oil and gas industries and the world's largest operator of medium-sized oil tankers and we completed our initial public offering in December 2007. As at August 1, 2010, we owned nine Aframax tankers and five Suezmax tankers. As of August 1, 2010, six of our Aframax tankers and three of our Suezmax tankers operated under fixed-rate time-charter contracts with our customers, of which two time-charter contracts are scheduled to expire in 2010, five in 2011, and two in 2012. The three fixed-rate contracts for the Suezmax tankers all include a component providing for additional revenues to us beyond the fixed hire rate when spot market rates exceed threshold amounts. One of these Suezmax time-charter contracts expires in 2011 and the remaining two expire in 2012. Our remaining three Aframax tankers and two Suezmax tankers currently participate in an Aframax pooling arrangement and a Suezmax pooling arrangement, respectively, each managed by subsidiaries of Teekay. As of August 1, 2010, these pooling arrangements included 12 Aframax tankers and 47 Suezmax tankers, respectively. Through the participation of some of our vessels in these pooling arrangements, we expect to benefit from Teekay's reputation and the scope of its operations in increasing our cash flows. Our mix of vessels trading in the spot market or subject to fixed-rate time charters will change from time to time. Teekay currently holds a majority of the voting power of our common stock, which includes Class A common stock and Class B common stock.

We distribute to our stockholders on a quarterly basis all of our Cash Available for Distribution, subject to any reserves the board of directors may from time to time determine are required for the prudent conduct of our business. *Cash Available for Distribution* represents our net income plus depreciation and amortization, unrealized losses from derivatives, non-cash items and any write-offs or other non-recurring items less unrealized gains from derivatives and net income attributable to the historical results of vessels acquired by us from Teekay, prior to their acquisition by us, for the period when these vessels were owned and operated by Teekay.

**Significant Developments in 2010**

On April 19, 2010, we sold one of our Aframax tankers, the 1995-built *Falster Spirit*, for \$17.3 million. The gain on the sale of the vessel of \$37,000 is shown in the unaudited consolidated statements of income in this Report.

In April 2010, we completed a public follow-on offering of 8.8 million Class A common shares (including 1,079,500 common shares issued upon the partial exercise of the underwriter's overallotment option) at a price of \$12.25 per share, for gross proceeds of \$107.5 million. Concurrent with the public offering, we issued 2,612,244 unregistered shares of Class A common stock to Teekay at a price of \$12.25 per share, as partial consideration for three vessels that we acquired from Teekay Corporation for an aggregate consideration of approximately \$168.7 million.

On April 14, 2010, we acquired two double-hull Suezmax tankers from Teekay, the 2002-built *Yamuna Spirit* and 2004-built *Kaveri Spirit*, for a total cost of \$124.2 million. On May 11, 2010, we purchased the 2005-built Aframax tanker from Teekay, the *Helga Spirit*, for \$44.5 million. We financed these vessel acquisitions (the *2010 Vessel Acquisitions*) with the net proceeds of \$135.2 million from the follow-on public offering and concurrent private placement, and the net proceeds of \$17.3 million from the sale of the *Falster Spirit*, as well as using \$9.2 million of

our working capital and drawing \$7.0 million on our Tranche A Revolver. The purchase price for the three oil tankers was the fair market value at the time of offer, taking into account any existing charter contracts and based on independent ship broker valuations. We anticipate additional opportunities to further expand our fleet through acquisitions of tankers from third parties and additional tankers that Teekay may offer to sell to us from time to time. These tankers may include crude oil and product tankers.

On July 16, 2010, we made loans totalling \$115 million to a third party shipowner (the *Loans*). The Loans bear interest at an annual interest rate of 9% per annum and have a fixed term of three years. The Loans are repayable in full, together with a 3% premium of the Loans then outstanding, on maturity and are collateralized by first priority mortgages on two 2010-built Very Large Crude Carriers owned by the shipowner. We financed the Loans by drawing on our revolving credit facility.

On July 22, 2010, we entered into two interest rate swap agreements. One has a notional principal amount of \$70.0 million, a fixed rate of 0.85% per annum and a term of two years. The other has a notional principal amount of \$45.0 million, a fixed rate of 1.19% per annum and a term of three years. Both interest rate swap agreements require quarterly settlements.

On August 26, 2010, we sold one of our Aframax tankers, the 1995-built *Sotra Spirit*, for \$17.2 million. The loss on sale of the vessel of approximately \$1.5 million will be recorded in the third quarter of 2010.



**Table of Contents****Our Charters**

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

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

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

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

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

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

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

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

communication expenses.

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

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

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

***Our financial results reflect the results of the interests in vessels acquired from Teekay Corporation for all periods the vessels were under common control.*** As at June 30, 2010, we have acquired from Teekay five Suezmax tankers and one Aframax tanker at various times since our initial public offering. The most recent acquisition of the *Kaveri Spirit*, *Yamuna Spirit* and *Helga Spirit* occurred during the second quarter of 2010, and more information about these purchases are included above in the Significant Transactions in 2010 above. These acquisitions from Teekay were deemed to be business acquisitions between entities under common control. Accordingly, we have accounted for these transactions in a manner similar to the pooling of interest method. Under this method of accounting our financial statements, for periods prior to the date the interests in these vessels were actually acquired by us, are recast to include the results of these acquired vessels. The periods recast include all periods that we and the acquired vessels were both under common control of Teekay and had begun operations. As a result, our consolidated statements of income for the three and six months ended June 30, 2010 and 2009, reflect the financial results of the *Kaveri Spirit*, the *Yamuna Spirit* and the *Helga Spirit* purchased in April 2010 and May 2010, respectively, for the period under common control of Teekay prior to the acquisition of the vessels by us, and such results for such periods are collectively referred to as the *Dropdown Predecessor*.

***Our voyage revenues are affected by cyclicity in the tanker markets.*** The cyclical nature of the tanker industry causes significant increases or decreases in the revenue we earn from our vessels, particularly those we trade in the spot market. This affects the amount of dividends, if any, we pay on our common stock from period to period.

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

***Our vessel operating expenses are facing industry-wide cost pressures.*** The oil shipping industry has experienced a global manpower shortage due to significant growth in the world fleet. This shortage resulted in crew wage increases during the last three years although to a lesser degree in 2009 as well as the first half of 2010. We expect the trend of significant crew compensation increases to abate in the short term. However, this could change if market conditions adjust. In addition, factors such as pressure on raw material prices and changes in regulatory requirements could also increase operating expenditures. In 2009, we took various measures in an effort to reduce costs, improve operational efficiencies, and mitigate the impact of inflation and price increases and have continued this effort during 2010.

***The amount and timing of drydockings of our vessels can significantly affect our revenues between periods.*** Our vessels are normally offhire when they are being drydocked. During the three and six months ended June 30, 2010, two of our vessels were drydocked. The total number of days of offhire relating to drydocking during the second quarter of 2010 was 95.0 days. For our existing fleet, there is one drydocking scheduled in the third

quarter of 2010. There are no drydockings scheduled in the fourth quarter of 2010 or in 2011.

**Table of Contents****Results of Operations**

We use a variety of financial and operational terms and concepts when analyzing our results of operations, which can be found in Item 5. Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2009. In accordance with United States generally accepted accounting principals (or *GAAP*), we report gross voyage revenues in our income statements and include voyage expenses among our operating expenses. However, shipowners base economic decisions regarding the deployment of their vessels upon anticipated time charter equivalent (or *TCE*) rates, and industry analysts typically measure bulk shipping freight rates in terms of *TCE* rates. There are two reasons for this. First, under time charters the customer usually pays the voyage expenses, while under voyage charters the shipowner usually pays the voyage expenses. Second, the revenues and voyage expenses of our vessels that operate in pool arrangements are pooled with the voyage revenues and voyage expenses of other pool participants. The resulting net pool revenues, calculated on a *TCE* basis, are allocated to the pool participants according to an agreed formula. We account for the net allocation from the pool as voyage revenues. Accordingly, the discussion of revenue below focuses on net voyage revenues (or voyage revenues less voyage expenses) and *TCE* rates where applicable.

**Three and Six Months Ended June 30, 2010 versus Three and Six Months Ended June 30, 2009**

The following table presents our operating results for the three and six months ended June 30, 2010 and 2009, and compares net voyage revenues, a non-GAAP financial measure, for those periods to voyage revenues, the most directly comparable GAAP financial measure.

(in thousands of U.S. dollars except percentages)	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Revenues	31,917	37,615	(15.1)	66,519	81,674	(18.6)
Voyage expenses	784	545	43.9	1,572	1,224	28.4
Net voyage revenues	31,133	37,070	(16.0)	64,947	80,450	(19.3)
Vessel operating expenses	9,239	9,944	(7.1)	19,828	20,309	(2.4)
Depreciation and amortization	9,781	9,799	(0.2)	19,869	19,450	2.2
General and administrative	1,746	2,493	(30.0)	4,023	4,706	(14.5)
Gain on sale of vessel	(37)			(37)		
Income from vessel operations	10,404	14,834	(29.9)	21,264	35,985	(40.9)
Interest expense	(1,607)	(3,035)	(47.1)	(3,266)	(6,665)	(51.0)
Interest income	24	26	(7.7)	36	48	(25.0)
Realized and unrealized (loss) gain on interest rate swap	(6,705)	5,475	(222.5)	(9,363)	6,843	(236.8)
Other income (loss) net	5	(81)	106.2	(392)	(293)	33.8
Net income	2,121	17,219	(87.7)	8,279	35,918	(77.0)

**Tanker Market**

Average freight rates for crude oil tankers during the second quarter of 2010 were relatively unchanged from the previous quarter, in contrast to the seasonal decline which typically occurs at the end of the winter season. The strength in average tanker freight rates during the second quarter of 2010 was primarily driven by the continued recovery in global oil demand, led by China, where crude oil imports reached a record high of 5.4 million barrels per day (*mb/d*) in June 2010. Large crude oil tanker rates were aided by the temporary removal from the active trading

fleet of approximately 25 Very Large Crude Carriers to be used as floating storage off the coast of Iran while the Suezmax sector was supported by strong Asian demand for crude oil sourced from West Africa, a relatively ton-mile intensive trade route.

The world tanker fleet grew by 11.9 million deadweight tonnes (*mdwt*), or approximately 2.7%, in the first half of 2010. This compares to fleet growth of 20.3 mdwt, or 5.0%, in the same period of 2009. A higher level of fleet removals compared to recent years has dampened tanker fleet growth in 2010 to date. In total, 10.5 mdwt of tanker capacity was removed for scrapping or conversion in the first half of 2010. The ongoing phase-out of the world's remaining single-hull tankers should continue to dampen tanker fleet growth in the near- to medium-term.

Tanker freight rates have declined during the third quarter of 2010 due to seasonal factors such as increased oil field maintenance in the North Sea, and the unwinding of floating storage contracts which has the effect of increasing the actively trading tanker fleet.

In July 2010, the International Monetary Fund (*IMF*) raised its forecast for global GDP growth in 2010 from 4.2% to 4.6%, its fifth upward revision since its April 2009 forecast of 1.9% GDP growth. The International Energy Agency (*IEA*) is forecasting 2010 global oil demand of 86.5 mb/d which constitutes growth of 1.8 mb/d, or 2.1%, over 2009 levels, the fastest rate of oil demand growth since 2004. China is expected to account for approximately 40% of global oil demand growth this year.

***Fleet and TCE Rates***

As at June 30, 2010, we owned nine Aframax-class and five Suezmax-class tankers. The financial results of the Dropdown Predecessor relating to the Suezmax and Aframax tankers acquired in April and May 2010, respectively, have been included, for accounting purposes, in our results as if the vessels were acquired on August 1, 2007 and January 6, 2005, when they were acquired and began operations as conventional tankers for Teekay. Please read Note 2 to our consolidated financial statements included in this report.

**Table of Contents**

In 2009, TCE rates were calculated as net voyage revenue per revenue day before external broker commissions, internal pool management fees and pool commissions, and offhire bunker expenses. We now calculate TCE rates as net voyage revenue per revenue day before internal pool management fees and pool commissions, and offhire bunker expenses, and we have appropriately adjusted the 2009 TCE rates to conform to this change. The following table outlines the average TCE rates earned by vessels for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30, 2010			Three Months Ended June 30, 2009		
	Net Voyage Revenues <sup>(1)</sup> (in thousands)	Revenue Days	Average TCE per Revenue Day <sup>(1)</sup>	Net Voyage Revenues <sup>(2)</sup> (in thousands)	Revenue Days	Average TCE per Revenue Day <sup>(2)</sup>
Voyage-charter contracts						
Aframax	\$ 4,126	218	\$ 18,929	\$ 5,933	334	\$ 17,788
Voyage-charter contracts						
Suezmax	5,520	178	30,952	9,864	363	27,162
Time-charter contracts						
Aframax	14,172	520	27,255	15,653	525	29,803
Time-charter contracts						
Suezmax <sup>(3)</sup>	8,471	274	30,915	6,475	91	71,158
Total <sup>(4)</sup>	\$ 32,289	1,190	\$ 27,127	\$ 37,925	1,313	\$ 28,886

(1) Excludes a total of \$0.8 million in internal pool management fees and commissions payable by us to Teekay for commercial management for our vessels and \$0.4 million in offhire bunker expenses.

(2) Excludes a total of \$0.6 million in internal pool management fees and commissions payable by us to Teekay for

commercial  
management for  
our vessels and  
\$0.2 million in  
offhire bunker  
offhire expense

- (3) The *Ganges Spirit*, *Narmada Spirit* and *Yamuna Spirit* earned profit-share amounts of \$0.2 million, \$0.6 million and \$0.2 million, respectively, for the three months ended June 30, 2010 compared to \$3.7 million, \$nil and \$nil, respectively, in the same period of 2009. The *Ganges Spirit* and *Yamuna Spirit* are employed on a time-charter contract at a base rate of \$30,500 per day with a profit sharing agreement whereby we are entitled to the second \$3,000 per day of the vessels earnings above the base rate and to 50 percent of any earnings above \$33,500 per day and the profit-share component is calculated as

50 percent of a specified average daily rate for the month in excess of \$19,500 for the *Narmada Spirit*. The profit share amount is determined on a monthly basis for the *Narmada Spirit* and on an annual basis in the second quarter of each year for the period from June 1 to May 31 for both the *Ganges Spirit* and *Yamuna Spirit* profit-share amounts. The TCE rate per day for the Suezmax time-charter fleet for the three months ended June 30, 2010 and 2009, was \$27,183 and \$30,928, respectively, excluding the profit share amount recognized in the quarter.

- (4) The TCE rate per day for total fleet for the three months ended June 30, 2010 and 2009, was \$26,267 and \$26,098,



respectively, excluding the profit-share amount recognized in the quarter.

	Six Months Ended June 30, 2010			Six Months Ended June 30, 2009		
	Net Voyage Revenues <sup>(1)</sup> (in thousands)	Revenue Days	Average TCE per Revenue Day <sup>(1)</sup>	Net Voyage Revenues <sup>(2)</sup> (in thousands)	Revenue Days	Average TCE per Revenue Day <sup>(2)</sup>
Voyage-charter contracts Aframax	\$ 10,661	569	\$ 18,742	\$ 13,066	619	\$ 21,101
Voyage-charter contracts Suezmax	11,354	358	31,732	25,561	720	35,485
Time-charter contracts Aframax	28,927	1,059	27,322	34,294	1,136	30,183
Time-charter contracts Suezmax <sup>(3)</sup>	15,983	543	29,137	9,296	181	51,357
Total <sup>(4)</sup>	\$ 66,925	2,529	\$ 26,470	\$ 82,217	2,656	\$ 30,946

(1) Excludes a total of \$1.4 million in internal pool management fees and commissions payable by us to Teekay for commercial management for our vessels and \$0.6 million in offhire bunker expenses.

(2) Excludes a total of \$1.6 million in internal pool management fees and commissions payable by us to Teekay for

commercial  
management for  
our vessels and  
\$0.2 million in  
offhire bunker  
offhire expense

- (3) The *Ganges Spirit*, *Narmada Spirit* and *Yamuna Spirit* earned profit-share amounts of \$0.2 million, \$1.2 million and \$0.2 million, respectively, for the six months ended June 30, 2010 compared to \$3.7 million, \$nil and \$nil, respectively, in the same period of 2009. The *Ganges Spirit* and *Yamuna Spirit* are employed on a time-charter contract at a base rate of \$30,500 per day with a profit sharing agreement whereby we are entitled to the second \$3,000 per day of the vessels earnings above the base rate and to 50 percent of any earnings above \$33,500 per day and the profit-share component is calculated as

50 percent of a specified average daily rate for the month in excess of \$19,500 for the *Narmada Spirit*. The profit share amount is determined on a monthly basis for the *Narmada Spirit* and on an annual basis in the second quarter of each year for the period from June 1 to May 31 for both the *Ganges Spirit* and *Yamuna Spirit* profit-share amounts. The TCE rate per day for the Suezmax time-charter fleet for the six months ended June 30, 2010 and 2009 was \$26,536 and \$31,131, respectively, excluding the profit share amount recognized in the quarter.

- (4) The TCE rate per day for total fleet for the six months ended June 30, 2010 and 2009, was \$25,847 and \$29,568,

respectively,  
excluding the  
profit-share  
amount  
recognized in  
the quarter.

Net Voyage Revenues. Net voyage revenues decreased for the three and six months ended June 30, 2010 from the same periods last year primarily due to:

a decrease of \$2.7 million and \$2.1 million for the three and six months ended June 30, 2010, respectively, relating to lower profit-sharing amounts earned by the three applicable Suezmax tankers compared to the same period in 2009 resulting from weaker average spot market rates in 2010;

a decrease of \$1.9 million and \$1.4 million for the six months ended June 30, 2010 relating to a decrease in Suezmax and Aframax earnings on voyage charters, respectively, resulting from a weaker spot market in the first half of 2010 compared to the same period in 2009;

**Table of Contents**

a decrease of \$1.4 million for the three and six months ended June 30, 2010, respectively, relating to the sale of the *Falster Spirit*;

a net decrease of \$1.2 million and \$2.7 million for the three and six months ended June 30, 2010, respectively, relating to the change in employment of the *Matterhorn Spirit* which was earning time-charter revenues during the three and six months ended June 30, 2009 compared to its spot voyage employment during the three and six months ended June 30, 2010;

a decrease of \$1.2 million for the three and six months ended June 30, 2010, respectively, relating to the 69 offhire days relating to the *Sotra Spirit* drydocking during the second quarter of 2010;

a decrease of \$0.7 million for the six months ended June 30, 2010, resulting from offhire days relating to the drydocking of the *Erik Spirit*;

a net decrease of \$0.6 million and \$2.9 million for the three and six months ended June 30, 2010, respectively, relating to the change in employment of the *Narmada Spirit* which was trading in the Gemini Pool during the three and six months ended June 30, 2009 compared to its current time-charter employment;

a decrease of \$0.6 million for the six months ended June 30, 2010 relating to the lower rates earned on our Aframax vessels, on time-chartered contracts;

a net decrease of \$0.6 million for the six months ended June 30, 2010 relating to the change in employment of the *Yamuna Spirit* which was trading in the Gemini Pool during the six months ended June 30, 2009 compared to its current time-charter employment.

partially offset by

an increase of \$0.7 million for the three months ended June 30, 2010 relating to an increase in Suezmax earnings on voyage charter arrangements because the Suezmax spot market was stronger during this period compared to the same period in 2009;

a net increase of \$0.5 million for the three months ended June 30, 2010 relating to the change in employment of the *Yamuna Spirit* which was trading in the Gemini Pool during this period compared to its current time-charter employment; and

an increase of \$0.4 million for the three months ended June 30, 2010 relating to higher rates earned on our Aframax vessels employed on voyage-charter because the spot market was stronger during this period compared to the same period in 2009.

Vessel Operating Expenses. Vessel operating expenses decreased for the three and six months ended June 30, 2010 from the same periods last year primarily due to the sale of the *Falster Spirit* in April 2010 which reduced the operating expenses in the second quarter of 2010 by \$0.4 million.

Depreciation and Amortization. Depreciation and amortization the three months ended June 30, 2010 and 2009 were consistent at \$9.8 million primarily due to an increase in the amortization of drydock expenditures for the *Erik Spirit* and *Sotra Spirit* which completed their drydockings during the second quarter of 2010 were mainly offset by the sale of *Falster Spirit* in the second quarter of 2010 as no depreciation was recorded for the vessel during the quarter. Depreciation and amortization increased for the six months ended June 30, 2010, compared to the same period in 2009 primarily due to an increase in the amortization of drydocking expenditures. The increase was partially offset by the sale of the *Falster Spirit* in the second quarter of 2010 as no depreciation expense was recorded for the vessel during the quarter.

General and Administrative Expenses. General and administrative expenses for the three and six months ended June 30, 2010 were \$1.7 million and \$4.0 million, respectively, compared to \$2.5 million and \$4.7 million for the

three and six months ended June 30, 2009, respectively, primarily due to decreases of \$0.7 million and \$0.5 million for the three and six months ended June 30, 2010, respectively, as a result of lower general and administrative expenses relating to the Dropdown Predecessor allocated in the second quarter in 2010.

Interest Expense. Interest expense decreased for the three and six months ended June 30, 2010 compared to the same periods in 2009 primarily due to:

decrease in the debt balance of the Dropdown Predecessor from Teekay Corporation (the *Push-Down Debt*), combined with the decrease in interest rate, for a total impact of \$0.8 million and \$1.5 million for the three and six months ended June 30, 2010, respectively. The Push-Down Debt from Teekay Corporation consists of an allocation of Teekay's corporate credit facilities. Upon the Dropdown of the *Yamuna Spirit*, the *Kaveri Spirit*, and the *Helga Spirit* in the second quarter of 2010, these corporate credit facilities were repaid.

scheduled loan payments of \$0.9 million and \$1.8 million were made for the three and six months ended June 30, 2010, respectively, and for the three and six months ended June 30, 2009, respectively. No loan principal prepayments were made during the three and six months ended June 30, 2010 compared to \$10.0 million and \$20.0 million principal prepayments made during the three and six months ended June 30, 2009, respectively.

Realized and unrealized gain (loss) on interest rate swap. We have not designated, for accounting purposes, our interest rate swap as a cash flow hedge of our U.S. Dollar LIBOR-denominated borrowings, and as such, the realized and unrealized changes in the fair value of the swap are reflected in a separate line item in our consolidated statements of income. The change in the fair value of the interest rate swap resulted in unrealized losses of \$5.4 million and \$6.7 million for the three and six months ended June 30, 2010, respectively, compared to unrealized gains of \$6.6 million and \$9.0 million for the three and six months ended June 30, 2009, respectively.

We recorded realized losses on the interest rate swap of \$1.3 million and \$2.7 million for the three and six months ended June 30, 2010 compared to realized losses of \$1.1 million and \$2.2 million for the same periods in 2009, respectively.

**Table of Contents**

**Net Income.** As a result of the foregoing factors, net income was \$2.1 million and \$8.3 million for the three and six months ended June 30, 2010 and \$17.2 million and \$35.9 million for the three and six months ended June 30, 2009, respectively.

**LIQUIDITY AND CAPITAL RESOURCES****Liquidity and Cash Needs**

Our short-term liquidity requirements are for the payment of operating expenses, drydocking expenditures, debt servicing costs, dividends on our shares of common stock, scheduled repayments of long-term debt, as well as funding our other working capital requirements. As at June 30, 2010, our total cash and cash equivalents was \$8.7 million. As a result of the 2010 Vessel Acquisitions, the amount available to be drawn on our revolving credit facility increased by \$115.0 million. Our total liquidity (including cash, cash equivalents, and undrawn credit facilities), was \$225.4 million as at June 30, 2010, compared to \$134.1 million as at December 31, 2009. As a result of the two term loans we made in July 2010 totaling \$115 million as discussed in *Significant Developments in 2010* above, our total liquidity is approximately \$118.8 million as at August 1, 2010. We believe that our working capital is sufficient for our present requirements.

Our spot market operations contribute to the volatility of our net operating cash flow, and thus our ability to generate sufficient cash flows to meet our short-term liquidity needs. Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. In addition, tanker spot markets historically have exhibited seasonal variations in charter rates. Tanker spot markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere and unpredictable weather patterns that tend to disrupt vessel scheduling.

Our long-term capital needs are primarily for capital expenditures and debt repayment. Generally, we expect that our long-term sources of funds will be cash balances, cash from operations, long-term bank borrowings and other debt or equity financings. Because we expect to pay a variable quarterly dividend equal to our Cash Available for Distribution during the previous quarter (subject to any reserves our board of directors may from time to time determine are required for the prudent conduct of business), we expect that we will rely upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and expansion capital expenditures, including opportunities we may pursue to purchase additional vessels from Teekay or third parties.

On April 9, 2010, we completed a public follow-on offering of 8.8 million Class A common shares (including 1,079,500 common shares issued upon the partial exercise of the underwriter's overallotment option) at a price of \$12.25 per share, for a gross proceeds of \$107.5 million. Concurrent with the public offering, we issued 2,612,244 unregistered shares of Class A common stock to Teekay at a price of \$12.25 per share. We used the net proceeds of \$135.2 million from the follow-on public offering and concurrent private placement, the net proceeds of \$17.3 million from the sale of the *Falster Spirit*, \$9.2 million of our working capital and \$7.0 million drawing on our Tranche A Revolver to finance the 2010 Vessel Acquisitions for approximately \$168.7 million.

As at June 30, 2010, our revolving credit facility provided for borrowings of up to \$516.0 million, of which \$216.7 million was undrawn. The amount available under this revolving credit facility decreases by \$28.4 million semi-annually commencing in November 2012 and the credit facility matures in 2017. Borrowings under this facility bear interest at LIBOR plus a margin and may be prepaid at any time in amounts of not less than \$5.0 million. The acquisitions of two of our Aframax tankers were financed with a term loan which bears interest at a rate of 4.06%. As of June 30, 2010, the balance of this term loan was \$26.1 million. The loan requires \$0.9 million in quarterly principal payments. Please read Note 5 to our consolidated financial statements included in this report.

As of June 30, 2010, our vessel financings were collateralized by all of our vessels. The term loan and our revolving credit facility contain covenants and other restrictions that we believe are typical of debt financing collateralized by vessels, including those that restrict the relevant subsidiaries from:

incurring or guaranteeing additional indebtedness;

making certain negative pledges or granting certain liens; and

selling, transferring, assigning or conveying assets.

In addition, our revolving credit facility contains covenants that require us to maintain a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with more than six months to maturity) of a minimum of \$35.0 million and at least 5.0% of our total debt. The term loan requires that certain of our subsidiaries maintain a minimum hull coverage ratio of 115% of the total outstanding balance for the facility period. As at June 30, 2010, we were in compliance with all of our covenants under our credit facilities.

If we breach covenants or restrictions in our financing agreements, we may be prohibited from paying dividends on our common stock and, subject to any applicable cure periods, our lenders may be entitled to:

- declare our obligations under the agreements immediately due and payable and terminate any further loan commitments; and

- foreclose on any of our vessels or other assets securing the related loans.

In the future, some of the covenants and restrictions in our financing agreements could restrict the use of cash generated by ship-owning subsidiaries in a manner that could adversely affect our ability to pay dividends on our common stock. However, we currently do not expect that these covenants will have such an effect.

We are exposed to market risk from changes in interest rates, foreign currency fluctuations and spot market rates. We use interest rate swaps to manage interest rate risk. We do not use these financial instruments for trading or speculative purposes. Please read [Item 3 Quantitative and Qualitative Disclosures About Market Risk](#).



**Table of Contents****Cash Flows**

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

	Six Months Ended June 30, 2010 (in thousands)	Six Months Ended June 30, 2009 (in thousands)
Net cash flow from operating activities	\$ 25,217	\$ 53,264
Net cash flow used in financing activities	(41,735)	(58,721)
Net cash flow from / (used) in investing activities	14,739	(3,666)

**Operating Cash Flows**

Net cash flow from operating activities decreased to \$25.2 million for the six months ended June 30, 2010, from \$53.3 million for the same period in 2009, primarily due to a decrease in average TCE rate per day earned by our spot and time-charter vessels, increase in drydocking days and the timing of our cash receipts and payments. Net cash flow from operating activities primarily depends upon the timing and amount of drydocking expenditures, repairs and maintenance activity, vessel additions and dispositions, changes in interest rates, fluctuations in working capital balances and spot market tanker rates. The number of vessel drydockings tends to be uneven between periods. During the six months ended June 30, 2010, there were 103.0 offhire days associated with drydocking and repositioning time compared to 44.7 offhire days in the same period in 2009.

**Financing Cash Flows**

Net cash outflow from financing activities decreased to \$41.7 million for the six months ended June 30, 2010 from \$58.7 million for the same period in 2009. The significant financing activities that decreased cash outflows during the six months ended June 30, 2010 were the April follow-on offering of 8.8 million Class A common shares that resulted in gross proceeds of \$107.5 million and a \$22.0 million draw down on the Revolver partially offset by the purchase of the 2010 Vessel Acquisitions and their respective Dropdown Predecessors which had a net cash outflow impact of \$140.5 million. In comparison, the significant financing activity that increased cash inflows during the six months ended June 30, 2009 was the June follow-on offering of 7.0 million Class A common shares that resulted in gross proceeds of \$68.6 million partially offset by the purchase of the *Ashkini Spirit* and its Dropdown Predecessor which had a net cash outflow impact of \$42.5 million.

The cash dividends paid for the six months ended June 30, 2010 amounted to \$24.4 million, compared to cash dividends paid in the same period of 2009 of \$32.8 million. There were no loan principal prepayments during the six months ended June 30, 2010 compared to \$20.0 million loan principal prepayments in the same period in 2009.

During the six months ended June 30, 2010 and 2009, we repaid \$1.8 million and \$1.8 million, respectively, related to scheduled quarterly principal payments of our term loan.

We intend to distribute on a quarterly basis all of our Cash Available for Distribution, subject to any reserves established by our board of directors. On August 27, 2010, we paid a cash dividend of \$0.34 per common share for the quarter ended June 30, 2010.

**Investing Cash Flows**

Net cash flow from investing activities was \$14.7 million for the six months ended June 30, 2010, compared to a net cash outflow of \$3.7 million for the same period in 2009. During the six months ended June 30, 2010, we received gross proceeds of \$17.5 million from the sale of the *Falster Spirit*, partially offset by \$2.8 million in vessel upgrades and equipment expenditures we incurred. During the six months ended June 30, 2009, we incurred \$3.7 million in vessel upgrade and equipment expenditures.

**Commitments and Contingencies**

The following table summarizes our long-term contractual obligations as at June 30, 2010:

(in millions of U.S. dollars)	Total	Remainder of 2010	2011 and 2012	2013 and 2014	Beyond 2014
-------------------------------	-------	-------------------------	---------------------	---------------------	----------------

**U.S. Dollar-Denominated Obligations:**

Long-term debt <sup>(1)</sup>	325.4	1.8	7.2	7.2	309.2
Technical vessel management and administrative fees	48.0	1.9	7.7	7.7	30.7
<b>Total</b>	<b>373.4</b>	<b>3.7</b>	<b>14.9</b>	<b>14.9</b>	<b>339.9</b>

(1) Excludes expected interest payments of \$2.1 million (2010), \$8.0 million (2011 and 2012), \$7.4 million (2013 and 2014) and \$8.0 million (beyond 2014). Expected interest payments are based on the existing interest rate on the fixed-rate loan and a weighted average rate of 1.05% which includes a margin of 0.6% at June 30, 2010 on the variable-rate loan. The expected interest payments do not reflect the effect of an interest rate swap that we have used to hedge certain of our floating-rate debt.



**Table of Contents**

**Off-Balance Sheet Arrangements**

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

**Critical Accounting Estimates**

We prepare our financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For a further description of our material accounting policies, please read **Item 5 Operating and Financial Review and Prospects** in our Annual Report on Form 20-F for the year ended December 31, 2009.

As of June 30, 2010, we had one reporting unit with goodwill attributable to it. As of the date of this filing, we do not believe that there is a reasonable possibility that the goodwill attributable to this reporting unit might be impaired within the next year. However, certain factors that impact this assessment are inherently difficult to forecast and, as such, we cannot provide any assurance that an impairment will or will not occur in the future. An assessment for impairment involves a number of assumptions and estimates that are based on factors that are beyond our control, some of which factors are listed in the following section entitled **Forward-Looking Statements** .

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This Report on Form 6-K for the six months ended June 30, 2010 contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and our operations, performance and financial condition, including, in particular, statements regarding:

our future growth prospects and opportunities, including future vessel acquisitions;

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

the effectiveness of our chartering strategy in capturing upside opportunities and reducing downside risks;

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

our reliance on external financing sources to fund acquisitions and expansion capital expenditures;

crewing costs for vessels;

the duration of drydockings;

potential newbuilding order cancellations;

construction and delivery delays in the tanker industry generally;

the future valuation of goodwill;

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

our compliance with, and the effect on our business and operating results of, covenants under our credit facilities;

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

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

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, predict, will be, will continue, will likely result, or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to: spot market rate fluctuations; changes in the demand for oil transportation services; changes in our costs, such as the cost of crews; greater or less than anticipated levels of vessel newbuilding orders or greater or less than anticipated rates of vessel scrapping; changes in trading patterns; changes in applicable industry laws and regulations and the timing of implementation of new laws and regulations; potential inability to implement our growth strategy; competitive factors in the markets in which we operate; loss of any customer, time charter or vessel; drydocking delays; our potential inability to raise financing to purchase additional vessels; our exposure to currency exchange and interest rate fluctuations; conditions in the public equity markets; and other factors detailed from time to time in our periodic reports filed with the SEC, including our Annual Report on Form 20-F for the year ended December 31, 2009. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any

change in events, conditions or circumstances on which any such statement is based.

**Table of Contents****TEEKAY TANKERS LTD.****JUNE 30, 2010****PART I FINANCIAL INFORMATION****ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Foreign Currency Fluctuation Risk**

Our primary economic environment is the international shipping market. This market utilizes the U.S. Dollar as its functional currency. Consequently, virtually all our revenues and the majority of our operating costs are in U.S. Dollars. We incur certain voyage expenses, vessel operating expenses, drydocking expenditures and general and administrative expenses in foreign currencies, the most significant of which are the Canadian Dollar, Euro, British Pound, and Norwegian Kroner. As at June 30, 2010, we had not entered into forward contracts as a hedge against changes in certain foreign exchange rates.

**Interest Rate Risk**

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

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

The table below provides information about our financial instruments at June 30, 2010, that are sensitive to changes in interest rates, including our debt and interest rate swap. For long-term debt, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For the interest rate swap, the table presents its notional amount and weighted-average interest rate by its expected contractual maturity date.

	Expected Maturity Date						Total	Fair Value Asset / (Liability)	Rate <sup>(1)</sup>
	Remainder of 2010	2011	2012	2013	2014	Thereafter			
<b>Long-Term Debt:</b>									
Variable Rate <sup>(2)</sup>						299.3	299.3	(263.9)	1.0%
Fixed Rate	1.8	3.6	3.6	3.6	3.6	9.9	26.1	(24.7)	4.1%
<b>Interest Rate Swap:</b>									
Contract Amount <sup>(2)</sup>						100.0	100.0	(20.6)	5.6%
<sup>(3)</sup>									

(1) Rate refers to the weighted-average effective interest rate for our long-term debt, including the margin

we pay on our variable-rate debt, and the average fixed rate we pay under our interest rate swap agreement, which excludes the margin we pay on our variable-rate debt.

- (2) Interest payments on U.S. Dollar-denominated debt and interest rate swap are based on LIBOR.
- (3) The average variable rate paid to us under our interest rate swap is set quarterly at the three-month LIBOR.

**Spot Tanker Market Rate Risk**

The cyclical nature of the tanker industry causes significant increases or decreases in the revenue that we earn from our vessels, particularly those that trade in the spot tanker market. From time to time we may use freight forward agreements as a hedge to protect against changes in spot tanker market rates. Freight forward agreements involve contracts to provide a fixed number of theoretical voyages along a specified route at a contracted charter rate. Freight forward agreements settle in cash based on the difference between the contracted charter rate and the average rate of an identified index. As at June 30, 2010, we were not a party to any freight forward agreements.



**Table of Contents****TEEKAY TANKERS LTD.  
JUNE 30, 2010****PART II OTHER INFORMATION****Item 1 Legal Proceedings**

None

**Item 1A Risk Factors**

In addition to the other information set forth in this Report on Form 6-K, you should carefully consider the risk factors discussed in Part I, Item 3. Key Information Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2009, which could materially affect our business, financial condition or results of operations. There have been no material changes in our risk factors from those disclosed in our 2009 Annual Report on Form 20-F.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

In April 2010, the Company issued 2,612,244 unregistered shares of Class A common stock to Teekay Corporation at a price of \$12.25 per share for gross proceeds of approximately \$32.0 million, as partial consideration, in connection with the purchase from Teekay Corporation of three vessels. This transaction was exempt from the registration requirements of the Securities Act of 1933, as amended, in reliance upon Section 4(2) of the Securities Act.

**Item 3 Defaults Upon Senior Securities**

None

**Item 4 Submission of Matters to a Vote of Security Holders**

The Company's 2010 Annual Meeting of Shareholders was held on June 23, 2010. The following persons were elected directors for a one year period by the votes set forth opposite their names:

	Votes For	Votes Against or Withheld	Shares which Abstained	Broker Non-Votes
Terms Expiring in 2012				
C. Sean Day	41,713,570	3,144,161	N/A	N/A
Richard J.F. Bronks	44,093,648	764,083	N/A	N/A
Richard T. du Moulin	44,644,955	212,776	N/A	N/A
Peter Evensen	41,963,419	2,894,312	N/A	N/A
William Lawes	44,103,742	753,989	N/A	N/A
Bjorn Moller	41,969,259	2,888,472	N/A	N/A

**Item 5 Other Information**

None

**Item 6 Exhibits**

- 4.11 Facility Agreement dated July 5, 2010 for a U.S. \$57,500,000 loan facility among Alpha Elephant Inc, Solar VLCC Corporation, Deutsche Bank Luxembourg S.A. and Deutsche Bank AG, London Branch.
- 4.12 Facility Agreement dated July 5, 2010 for a U.S. \$57,500,000 loan facility among Beta Elephant Inc, Solar VLCC Corporation, Deutsche Bank Luxembourg S.A. and Deutsche Bank AG, London Branch.
- 4.13

Transfer Certificate dated July 15, 2010 among Deutsche Bank Luxembourg S.A., Deutsche Bank AG, London Branch and VLCC A Investment L.L.C.

4.14 Transfer Certificate dated July 15, 2010 among Deutsche Bank Luxembourg S.A., Deutsche Bank AG, London Branch and VLCC B Investment L.L.C.

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

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

**REGISTRATION STATEMENT ON FORM F-3 (NO. 333-159807) FILED WITH THE SEC ON JUNE 5, 2009.**

**Table of Contents**

**SIGNATURES**

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

TEEKAY TANKERS LTD.

Dated: September 10, 2010

By: /s/ Vincent Lok  
Vincent Lok  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)