

TEEKAY CORP
Form 6-K
August 31, 2015
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, 2015
Commission file number 1- 12874

TEEKAY CORPORATION
(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building
69 Pitts Bay Road

Edgar Filing: TEEKAY CORP - Form 6-K

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

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

INDEX

	PAGE
<u>PART I: FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Unaudited Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2015 and 2014</u>	3
<u>Unaudited Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2015 and 2014</u>	4
<u>Unaudited Consolidated Balance Sheets as at June 30, 2015 and December 31, 2014</u>	5
<u>Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014</u>	6
<u>Unaudited Consolidated Statement of Changes In Total Equity for the six months ended June 30, 2015</u>	7
<u>Notes to the Unaudited Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	48
<u>PART II: OTHER INFORMATION</u>	51
<u>SIGNATURES</u>	53

Table of Contents

ITEM 1 - FINANCIAL STATEMENTS

TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenues	592,797	452,254	1,138,659	958,748
Voyage expenses	(23,890)	(33,439)	(49,560)	(68,451)
Vessel operating expenses	(201,370)	(201,714)	(385,573)	(402,900)
Time-charter hire expense	(30,333)	(9,714)	(55,260)	(26,006)
Depreciation and amortization	(128,199)	(103,373)	(240,903)	(206,831)
General and administrative	(33,730)	(36,945)	(71,684)	(74,823)
Asset impairments (note 7b)	(500)		(15,996)	
Loan loss recoveries (note 7b)		2,521		2,521
Gain on sale of vessels, equipment and other assets (note 7a)		9,615	1,643	9,453
Restructuring reversals (charges) (note 12)	742	244	(8,384)	(395)
Income from vessel operations	175,517	79,449	312,942	191,316
Interest expense	(62,388)	(49,656)	(113,734)	(98,989)
Interest income	1,199	793	2,729	2,576
Realized and unrealized gain (loss) on non-designated derivative instruments (note 15)	63,752	(75,331)	(19,634)	(122,579)
Equity income	39,901	35,271	60,650	62,765
Foreign exchange (loss) gain (notes 8 and 15)	(1,604)	(2,046)	15,906	(2,940)
Other (loss) income (note 13)	(389)	(734)	(14)	7,517
Net income (loss) before income taxes	215,988	(12,254)	258,845	39,666
Income tax (expense) recovery (note 16)	(752)	(3,193)	243	(5,991)
Net income (loss)	215,236	(15,447)	259,088	33,675
Less: Net income attributable to non-controlling interests	(149,324)	(27,540)	(202,940)	(77,150)
Net income (loss) attributable to shareholders of Teekay Corporation	65,912	(42,987)	56,148	(43,475)
Per common share of Teekay Corporation (note 17)				
Basic income (loss) attributable to shareholders of Teekay Corporation	0.91	(0.60)	0.77	(0.61)
	0.90	(0.60)	0.77	(0.61)

Diluted income (loss) attributable to shareholders of Teekay Corporation				
Cash dividends declared	0.3163	0.3163	0.6325	0.6325
Weighted average number of common shares outstanding (note 17)				
Basic	72,697,121	72,036,526	72,623,503	71,687,549
Diluted	73,477,680	72,036,526	73,379,228	71,687,549

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

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of U.S. Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Net income (loss)	215,236	(15,447)	259,088	33,675
Other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications				
Unrealized loss on marketable securities	(217)	(287)	(429)	(208)
Unrealized gain (loss) on qualifying cash flow hedging instruments	328	(1,121)	(644)	(2,064)
Pension adjustments, net of taxes	(96)	581	(188)	(132)
Foreign exchange (loss) gain on currency translation	(174)	44	(653)	(43)
Amounts reclassified from accumulated other comprehensive income (loss) to equity income:				
Realized loss on qualifying cash flow hedging instruments	591	391	953	782
Other comprehensive income (loss)	432	(392)	(961)	(1,665)
Comprehensive income (loss)	215,668	(15,839)	258,127	32,010
Less: Comprehensive income attributable to non-controlling interests	(149,934)	(27,067)	(203,144)	(76,320)
Comprehensive income (loss) attributable to shareholders of Teekay Corporation	65,734	(42,906)	54,983	(44,310)

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

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS**

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

	As at June 30, 2015 \$	As at December 31, 2014 \$
ASSETS		
Current		
Cash and cash equivalents (<i>note 8</i>)	707,885	806,904
Restricted cash	109,462	33,653
Accounts receivable, including non-trade of \$15,112 (2014 \$49,707) and related party balance of \$41,265 (2014 \$38,616)	373,495	378,193
Assets held for sale (<i>note 7b</i>)	5,000	
Net investment in direct financing leases (<i>note 5</i>)	25,260	20,823
Prepaid expenses and other	92,028	69,470
Current portion of loans to equity-accounted investees	16,262	26,209
Total current assets	1,329,392	1,335,252
Restricted cash - non-current	46,973	85,698
Vessels and equipment (<i>note 8</i>)		
At cost, less accumulated depreciation of \$2,843,333 (2014 \$2,627,499)	8,049,166	6,307,971
Vessels under capital leases, at cost, less accumulated amortization of \$53,612 (2014 \$50,898)	89,040	91,776
Advances on newbuilding contracts and conversion costs (<i>notes 10a</i>)	629,266	1,706,500
Total vessels and equipment	8,767,472	8,106,247
Net investment in direct financing leases - non-current (<i>note 5</i>)	668,272	684,130
Loans to equity-accounted investees and joint venture partners, bearing interest between nil to 8%	218,192	227,217
Derivative assets (<i>note 15</i>)	18,376	14,415
Equity-accounted investments (<i>notes 4b, 4c, 4e and 10c</i>)	890,351	873,421
Other non-current assets	293,181	274,595
Intangible assets - net	89,228	94,666
Goodwill	168,571	168,571
Total assets	12,490,008	11,864,212
LIABILITIES AND EQUITY		
Current		
Accounts payable	62,881	85,290

Edgar Filing: TEEKAY CORP - Form 6-K

Accrued liabilities	382,086	394,759
Current portion of derivative liabilities (<i>note 15</i>)	207,836	203,957
Current portion of long-term debt (<i>note 8</i>)	992,750	654,134
Current obligation under capital leases	61,354	4,422
Current portion of in-process revenue contracts	28,008	23,414
Total current liabilities	1,734,915	1,365,976
Long-term debt (<i>note 8</i>)	6,152,284	6,082,364
Long-term obligation under capital leases		59,128
Derivative liabilities (<i>note 15</i>)	419,381	422,182
In-process revenue contracts	133,790	149,998
Other long-term liabilities (<i>note 16</i>)	404,332	383,089
Total liabilities	8,844,702	8,462,737
Commitments and contingencies (<i>notes 4a, 4d, 5, 8, 10 and 15</i>)		
Redeemable non-controlling interest (<i>note 10e</i>)	10,481	12,842
Equity		
Common stock and additional paid-in capital (\$0.001 par value; 725,000,000 shares authorized; 72,706,169 shares outstanding (2014 72,500,502); 73,505,369 shares issued (2014 73,299,702)) (<i>note 9</i>)	772,606	770,759
Retained earnings	371,321	355,867
Non-controlling interest	2,520,361	2,290,305
Accumulated other comprehensive loss (<i>note 14</i>)	(29,463)	(28,298)
Total equity	3,634,825	3,388,633
Total liabilities and equity	12,490,008	11,864,212

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

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. Dollars)

	Six Months Ended	
	June 30,	
	2015	2014
	\$	\$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	259,088	33,675
Non-cash items:		
Depreciation and amortization	240,903	206,831
Amortization of in-process revenue contracts	(12,149)	(20,036)
Unrealized (gain) loss on derivative instruments	(2,968)	73,640
Gain on sale of vessels and equipment	(1,643)	(9,453)
Asset impairments and loan loss (recoveries) <i>(note 7b)</i>	15,996	(2,521)
Equity income, net of dividends received	(14,667)	(54,577)
Income tax (recovery) expense	(243)	5,991
Unrealized foreign exchange gain and other	(82,598)	(15,003)
Change in operating assets and liabilities	(54,303)	7,199
Expenditures for dry docking	(11,102)	(24,217)
Net operating cash flow	336,314	201,529
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt, net of issuance costs	1,143,442	1,872,259
Prepayments of long-term debt	(395,199)	(613,516)
Scheduled repayments of long-term debt <i>(note 8)</i>	(282,391)	(669,413)
Decrease (increase) in restricted cash	4,296	(385)
Net proceeds from equity issuances of subsidiaries <i>(note 6)</i>	187,576	7,475
Equity contribution by joint venture partner	5,500	22,017
Issuance of common stock upon exercise of stock options	1,158	44,372
Distributions paid from subsidiaries to non-controlling interests	(164,808)	(155,567)
Cash dividends paid	(45,910)	(45,188)
Other financing activities	(5,878)	(3,396)
Net financing cash flow	447,786	458,658
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(873,274)	(602,257)
Proceeds from sale of vessels and equipment and other	8,918	165,055
Purchase of ALP (net of cash acquired of \$294) <i>(note 4d)</i>		(2,322)
Investment in equity-accounted investments	(8,604)	(50,648)

Loan repayments from joint ventures and joint venture partners	16,768	6,175
Investment in direct financing lease assets		(54,800)
Increase in restricted cash	(42,048)	
Other investing activities	15,121	12,850
Net investing cash flow	(883,119)	(525,947)
(Decrease) increase in cash and cash equivalents	(99,019)	134,240
Cash and cash equivalents, beginning of the period	806,904	614,660
Cash and cash equivalents, end of the period	707,885	748,900

Supplemental cash flow information (*note 18*)

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

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. Dollars)

	TOTAL EQUITY						
	Thousands of Shares of Common Stock Outstanding #	Common Stock and Additional Paid-in Capital \$	Retained Earnings \$	Accumulated Other Comprehensive Loss \$	Non- controlling Interests \$	Total \$	Redeemable Non- controlling Interest \$
Balance as at December 31, 2014	72,501	770,759	355,867	(28,298)	2,290,305	3,388,633	12,842
Net income			56,148		202,940	259,088	
Reclassification of redeemable non-controlling interest in net income					(3,139)	(3,139)	3,139
Other comprehensive loss				(1,165)	204	(961)	
Dividends declared			(46,018)		(159,308)	(205,326)	(5,500)
Reinvested dividends	1	4				4	
Exercise of stock options and other (note 9)	204	1,158				1,158	
Employee stock compensation (note 9)		685				685	
Dilution gains on public offerings of Teekay Offshore, Teekay LNG and Teekay Tankers (note 6)			5,324			5,324	
Additions to non-controlling interest from equity contributions and other					189,359	189,359	
Balance as at June 30, 2015	72,706	772,606	371,321	(29,463)	2,520,361	3,634,825	10,481

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

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, other than 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*). They include the accounts of Teekay Corporation (or *Teekay*), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly-owned or controlled subsidiaries (collectively, the *Company*). Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2014, included in the Company's Annual Report on Form 20-F, filed with the U.S. Securities and Exchange Commission (or *SEC*) on April 29, 2015. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, cash flows and changes in total equity for the interim periods presented. The results of operations for the six months ended June 30, 2015, are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

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. Given current credit markets, it is possible that the amounts recorded as derivative assets and liabilities could vary by material amounts prior to their settlement.

2. Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (or *FASB*) issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (or *ASU 2014-08*) which raises the threshold for disposals to qualify as discontinued operations. A discontinued operation is now defined as: (i) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results; or (ii) an acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. ASU 2014-08 was adopted on January 1, 2015. The impact, if any, of adopting ASU 2014-08 on the Company's financial statements will depend on the occurrence and nature of disposals that occur after ASU 2014-08 is adopted.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (or *ASU 2014-09*). ASU 2014-09 will require an entity to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price,

(iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016 and shall be applied, at the Company's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. The Company is evaluating the effect of adopting this new accounting guidance.

In February 2015, the FASB issued Accounting Standards Update 2015-02, *Amendments to the Consolidation Analysis* (or *ASU 2015-02*), which eliminates the deferral of certain consolidation standards for entities considered to be investment companies, modifies the consolidation analysis performed on limited partnerships and modifies the impact of fee arrangements and related parties on the determination of the primary beneficiary of a variable interest entity. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. ASU 2015-02 may be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply ASU 2015-02 retrospectively. The Company is evaluating the effect of adopting this new accounting guidance.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (or *ASU 2015-03*), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for interim and annual periods beginning after December 15, 2015 and is to be applied on a retrospective basis. The Company is evaluating the effect of adopting this new accounting guidance.

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

3. Segment Reporting

The following tables include results for the Company's four segments for the three and six months ended June 30, 2015 and 2014:

Three Months ended June 30, 2015	Shuttle Tanker, FSO and Offshore Support Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues	156,142	208,117	77,873	150,665	592,797
Voyage expenses	(19,979)	(9)		(3,902)	(23,890)
Vessel operating expenses	(42,030)	(97,245)	(17,893)	(44,202)	(201,370)
Time-charter hire expense	(10,762)			(19,571)	(30,333)
Depreciation and amortization	(30,691)	(56,683)	(18,002)	(22,823)	(128,199)
General and administrative ⁽¹⁾	(7,812)	(12,854)	(6,922)	(6,142)	(33,730)
Asset impairments	(500)				(500)
Restructuring charges				742	742
Income from vessel operations	44,368	41,326	35,056	54,767	175,517

Three Months ended June 30, 2014	Shuttle Tanker, FSO and Offshore Support Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues	142,816	131,155	81,970	96,313	452,254
Voyage expenses	(24,890)	(172)	(739)	(7,638)	(33,439)
Vessel operating expenses	(46,989)	(92,436)	(17,139)	(45,150)	(201,714)
Time-charter hire expense	(4,975)			(4,739)	(9,714)
Depreciation and amortization	(27,039)	(38,056)	(17,888)	(20,390)	(103,373)
General and administrative ⁽¹⁾	(8,005)	(15,524)	(6,294)	(7,122)	(36,945)
Loan loss recoveries		2,521			2,521
Gain on sale of vessels				9,615	9,615
Restructuring charges	820			(576)	244
Income (loss) from vessel operations	31,738	(12,512)	39,910	20,313	79,449

Six Months ended June 30, 2015	Shuttle Tanker, FSO and Offshore Support Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues	309,796	375,325	155,355	298,183	1,138,659
Voyage expenses	(41,619)	(18)		(7,923)	(49,560)
Vessel operating expenses	(83,779)	(185,372)	(33,519)	(82,903)	(385,573)
Time-charter hire expense	(17,745)			(37,515)	(55,260)
Depreciation and amortization	(60,872)	(99,579)	(36,309)	(44,143)	(240,903)
General and administrative ⁽¹⁾	(17,343)	(26,694)	(16,169)	(11,478)	(71,684)
Asset impairments	(15,996)				(15,996)
Gain on sale of vessel	1,643				1,643
Restructuring charges				(8,384)	(8,384)
Income from vessel operations	74,085	63,662	69,358	105,837	312,942

Six Months ended June 30, 2014	Shuttle Tanker, FSO and Offshore Support Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues	304,028	273,674	163,393	217,653	958,748
Voyage expenses	(56,619)	(172)	(1,572)	(10,088)	(68,451)
Vessel operating expenses	(93,007)	(185,940)	(33,650)	(90,303)	(402,900)
Time-charter hire expense	(16,387)			(9,619)	(26,006)
Depreciation and amortization	(54,376)	(75,868)	(36,001)	(40,586)	(206,831)
General and administrative ⁽¹⁾	(17,382)	(30,865)	(13,494)	(13,082)	(74,823)
Loan loss recoveries		2,521			2,521
Gain on sale of vessels and equipment				9,453	9,453
Restructuring charges	268			(663)	(395)
Income (loss) from vessel operations	66,525	(16,650)	78,676	62,765	191,316

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

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

	June 30, 2015	December 31, 2014
	\$	\$
Shuttle tanker, FSO and offshore support segment	2,511,258	2,055,348

Edgar Filing: TEEKAY CORP - Form 6-K

FPSO segment	3,431,875	3,442,109
Liquefied gas segment	3,491,840	3,401,167
Conventional tanker segment	1,747,367	1,538,074
Cash	707,885	806,904
Accounts receivable and other assets	599,783	620,610
Consolidated total assets	12,490,008	11,864,212

Page 9 of 53

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share data)****4. Investments****a) Acquisition of Logitel Offshore Holding AS**

In August 2014, the Company's publicly-listed subsidiary Teekay Offshore Partners L.P. (NYSE: TOO) (or *Teekay Offshore*) acquired 100% of the outstanding shares of Logitel Offshore Holding AS (or *Logitel*). The purchase price for the shares of Logitel consisted of \$4.0 million in cash paid at closing and a potential additional cash amount of \$27.6 million, subject to reductions of some or all of this potential additional amount if certain performance criteria are not met, primarily relating to the construction of the three Units for Maintenance and Safety (or *UMS*) ordered from the COSCO (Nantong) Shipyard (or *COSCO*) in China (see Note 11).

Teekay Offshore committed to acquire three UMS ordered from COSCO for a total cost of approximately \$580 million, including estimated site supervision costs and license fees to be paid to Sevan Marine ASA (or *Sevan*) to allow for use of its cylindrical hull design in these UMS, and \$30.0 million from Teekay Offshore's assumption of Logitel's obligations under a bond agreement from Sevan. Prior to the acquisition, Logitel secured a three-year fixed-rate charter contract, plus extension options, with Petroleo Brasileiro SA (or *Petrobras*) in Brazil for the first UMS, the *Arendal Spirit*, which delivered in February 2015 and commenced its contract with Petrobras during the second quarter of 2015. The second UMS is currently under construction and in August 2014 Teekay Offshore exercised one of its existing six options with COSCO to construct a third UMS. During the second quarter of 2015, Teekay Offshore exercised its option to defer the delivery of its second UMS newbuilding by up to one year. During this period, COSCO will maintain and preserve this unit for the account of Teekay Offshore, including Teekay Offshore incurring interest at 5.0% per annum on the unpaid balance of the final yard installment. In addition, Teekay Offshore exercised its option to defer the delivery and all related construction work of its third UMS by 120 days. Teekay Offshore expects to secure charter contracts for the remaining two UMS newbuildings prior to their respective deferred deliveries in the third quarter of 2016 and the second quarter of 2017.

Teekay Offshore has assumed Logitel's obligations under a bond agreement from Sevan as part of this acquisition. The bond is non-interest bearing and is repayable in amounts of \$10.0 million within six months of delivery of each of the three UMS ordered from COSCO, for a total of \$30.0 million. If Logitel orders additional UMS with the Sevan cylindrical design, Logitel will be required to pay Sevan up to \$11.9 million for each of the next three UMS ordered. If the fourth of six options with COSCO is not exercised by its option expiry date on November 30, 2016, Sevan has a one-time option to receive the remaining two options with COSCO.

The acquisition of Logitel was accounted for using the purchase method of accounting, based upon finalized estimates of fair value.

The following table summarizes the preliminary and finalized valuations of the Logitel assets and liabilities on the acquisition date. The estimates of fair values of the Logitel assets acquired and liabilities assumed by Teekay Offshore were finalized during the second quarter of 2015.

<i>(in thousands of U.S. Dollars)</i>	Preliminary Valuation August 11, 2014	Adjustments	Final Valuation August 11, 2014
	\$	\$	\$
ASSETS			
Cash and cash equivalents	8,089		8,089
Prepaid expenses	640		640
Advances on newbuilding contracts	46,809	(2,239)	44,570
Intangible assets		1,000	1,000
Total assets acquired	55,538	(1,239)	54,299
LIABILITIES			
Accrued liabilities	4,098		4,098
Long-term debt	26,270	1,330	27,600
Total liabilities assumed	30,368	1,330	31,698
Net assets acquired	25,170	(2,569)	22,601
Cash consideration	4,000		4,000
Contingent consideration	21,170	(2,569)	18,601

Operating results of Logitel are reflected in the Company's consolidated financial statements commencing August 11, 2014, the effective date of acquisition. Pro forma revenues and net income if the acquisition had occurred at the beginning of 2014 would not be materially different than actual operating results reported.

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share data)****b) Teekay LNG Yamal LNG Joint Venture**

In July 2014, the Company's publicly-listed subsidiary Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*), through a new 50/50 joint venture (or the *Yamal LNG Joint Venture*) with China LNG Shipping (Holdings) Limited (or *China LNG*), ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia (or the *Yamal LNG Project*). The Yamal LNG Project is a joint venture between Russia-based Novatek OAO (60%), France-based Total S.A. (20%) and China-based China National Petroleum Corporation (or *CNPC*) (20%), and will consist of three LNG trains with a total expected capacity of 16.5 million metric tons of LNG per annum and is currently scheduled to commence operations in early-2018. The six 172,000-cubic meter ARC7 LNG carrier newbuildings are being constructed by Daewoo Shipbuilding & Marine Engineering Co. (or *DSME*), of South Korea, for an estimated total fully built-up cost of approximately \$2.1 billion. The vessels, which will be constructed with maximum 2.1 meter icebreaking capabilities in both the forward and reverse directions, are scheduled to deliver at various times between the first quarter of 2018 and first quarter of 2020. Upon their deliveries, the six LNG carriers will each operate under fixed-rate time-charter contracts with Yamal Trade Pte. Ltd. until December 31, 2045, plus extension options. As of June 30, 2015, Teekay LNG had advanced \$99.9 million to the Yamal LNG Joint Venture to fund newbuilding installments.

c) Teekay LNG BG International Limited Joint Venture

In June 2014, Teekay LNG acquired from BG International Limited (or *BG*) its ownership interests in four 174,000-cubic meter LNG carrier newbuildings. Through this transaction, Teekay LNG has a 30% ownership interest in two liquefied natural gas (or *LNG*) carrier newbuildings and a 20% ownership interest in the remaining two LNG carrier newbuildings (collectively the *BG Joint Venture*). The four vessels are scheduled to deliver between September 2017 and January 2019, and, upon delivery, will each operate under 20-year fixed-rate time-charter contracts, plus extension options with Methane Services Limited, a wholly-owned subsidiary of BG.

d) Teekay Offshore Acquisition of ALP Maritime Services B.V.

In March 2014, Teekay Offshore acquired 100% of the shares of ALP Maritime Services B.V. (or *ALP*), a Netherlands-based provider of long-haul ocean towage and offshore installation services to the global offshore oil and gas industry. Concurrently with this transaction, Teekay Offshore and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four SX-157 Ulstein Design ultra-long distance towing and offshore installation vessel newbuildings. These vessels will be equipped with dynamic positioning capability and are scheduled for delivery in 2016. Teekay Offshore is committed to acquire these newbuildings for a total cost of approximately \$258 million.

Teekay Offshore acquired ALP for a purchase price of \$2.6 million, which was paid in cash, and also entered into an arrangement to pay additional compensation to three former shareholders of ALP if certain requirements are satisfied. This contingent compensation consists of \$2.4 million, which is payable upon the delivery and employment of ALP's

four newbuildings, which are scheduled for delivery throughout 2016, and a further amount of up to \$2.6 million, which is payable if ALP's annual operating results from 2017 to 2021 meet certain targets. Teekay Offshore has the option to pay up to 50% of this compensation through the issuance of common units of Teekay Offshore. Each of the contingent compensation amounts are payable only if the three shareholders are employed by ALP at the time performance conditions are met. These contingent compensation costs were \$0.2 million and \$0.2 million, for the three months ended June 30, 2015 and 2014, respectively, and \$0.3 million and \$0.2 million, for the six months ended June 30, 2015 and 2014, respectively, and were recorded in general and administrative expenses in the Company's consolidated statements of income (loss). Teekay Offshore also incurred a \$1.0 million fee to a third party associated with the acquisition of ALP in the first quarter of 2014, which has been recognized in general and administrative expenses during 2014.

The acquisition of ALP was accounted for using the purchase method of accounting, based upon finalized estimates of fair value.

The following table summarizes the finalized estimates of fair values of the ALP assets acquired and liabilities assumed by Teekay Offshore on the acquisition date.

<i>(in thousands of U.S. Dollars)</i>	As at March 14, 2014 \$
ASSETS	
Cash and cash equivalents	294
Other current assets	404
Advances on newbuilding contracts	164
Other assets – long-term	395
Goodwill	2,032
Total assets acquired	3,289
LIABILITIES	
Current liabilities	387
Other long-term liabilities	286
Total liabilities assumed	673
Net assets acquired	2,616
Consideration	2,616

The goodwill recognized in connection with the ALP acquisition is attributable primarily to the assembled workforce of ALP, including the employees' experience, skills and abilities. Operating results of ALP are reflected in the Company's consolidated financial statements commencing March 14, 2014, the effective date of the acquisition. From the date of acquisition to June 30, 2014, Teekay Offshore recognized \$0.2 million of revenue and \$1.7 million of net loss resulting from this acquisition. On a pro forma basis for the Company for the six months ended June 30, 2014, there would be no material changes to revenues and net income giving effect to Teekay Offshore's acquisition of ALP as if it had taken place on January 1, 2014.

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

e) Tanker Investments Ltd.

In January 2014, Teekay and its publicly-listed subsidiary Teekay Tankers Limited (NYSE: TNK) (or *Teekay Tankers*) formed Tanker Investments Ltd. (or *TIL*), which seeks to opportunistically acquire, operate and sell modern second-hand tankers to benefit from an expected recovery of the tanker market. In connection with TIL's formation, Teekay and Teekay Tankers in the aggregate purchased 5.0 million shares of TIL common stock, representing an initial 20% interest in TIL, for \$50.0 million and received stock purchase warrants entitling them to purchase up to 1.5 million additional shares of common stock of TIL (see Note 15). The stock purchase warrants are derivative assets which had a value of \$11.1 million as at June 30, 2015. Teekay also received one Series A-1 preferred share and Teekay Tankers received one Series A-2 preferred share, each of which entitles the holder to elect one board member of TIL. The preferred shares do not give the holder a right to any dividends or distributions of TIL. The Company accounts for its investment in TIL using the equity method. As of June 30, 2015, Teekay and Teekay Tankers ownership interests in TIL totaled 16.04%.

5. Vessel Charters

Teekay LNG owns a 99% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or the *Teekay Tangguh Joint Venture*), giving Teekay LNG a 69% interest in the Teekay Tangguh Joint Venture. The joint venture is a party to operating leases whereby it is leasing two LNG carriers (or the *Tangguh LNG Carriers*) to a third party, which is in turn leasing the vessels back to the joint venture. In addition to Teekay LNG's minimum charter hire payments to be paid and received under these leases for the Tangguh LNG Carriers (which are described in Note 9 to the audited consolidated financial statements filed with the Company's Annual Report on Form 20-F for the year ended December 31, 2014), the minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at June 30, 2015, for the Company's chartered-in and chartered-out vessels were as follows:

		Remainder of				
		2015	2016	2017	2018	2019
		(in millions of U.S. Dollars)				
Charters-in	operating leases	72.4	97.5	43.7	0.4	
Charters-in	capital leases	3.9	7.7	31.0	27.3	
		76.3	105.2	74.7	27.7	
Charters-out	operating leases ⁽¹⁾	683.7	1,278.9	1,263.3	1,186.8	1,146.2
Charters-out	direct financing leases	39.0	83.9	207.9	173.7	39.1

722.7 1,362.8 1,471.2 1,360.5 1,185.3

- (1) The minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after June 30, 2015, revenue from unexercised option periods of contracts that existed on June 30, 2015 or variable or contingent revenues. In addition, minimum scheduled future operating lease revenues presented in the table have been reduced by estimated off-hire time for any period maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

6. Equity Financing Transactions

During the six months ended June 30, 2015, Teekay Offshore completed a preferred unit offering, Teekay LNG completed equity issuances under a continuous offering program and Teekay Tankers completed a public offering and equity issuances under a continuous offering program.

	Total Proceeds Received	Less: Teekay Corporation Portion	Offering Expenses	Net Proceeds Received
	\$	\$	\$	\$
Six Months ended June 30, 2015				
Teekay Offshore Preferred Units Offering	125,000		(4,187)	120,813
Teekay LNG Continuous Offering Program	16,568	(331)	(402)	15,835
Teekay Tankers Public Offering	13,716		(51)	13,665
Teekay Tankers Continuous Offering Program	38,122		(859)	37,263

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

7. Vessel Sales, Asset Impairments and Provisions

a) Vessel Sales

During the six months ended June 30, 2015, Teekay Offshore sold a 1997-built shuttle tanker, the *Navion Svenita*, for net proceeds of \$8.6 million. The Company's consolidated statement of income (loss) for the six months ended June 30, 2015, includes a \$1.6 million gain related to the sale of this vessel. This gain is included in the Company's shuttle tanker, floating storage and off-take (or *FSO*) and offshore support segment.

During three months ended June 30, 2014, Teekay Tankers sold two wholly-owned subsidiaries, each of which owns one VLCC, to TIL for aggregate proceeds of \$154.0 million plus related working capital on closing of \$1.7 million. The Company used a portion of the proceeds from this transaction to prepay \$152.0 million on one of Teekay Tankers revolving credit facilities and the remainder of the proceeds was used for general corporate purposes. During three months ended June 30, 2014, the Company realized a net gain of \$10.0 million from the sale of the two subsidiaries to TIL.

During the six months ended June 30, 2014, the Company sold four 2009-built Suezmax tankers that were part of the Company's conventional tanker segment. These vessels were classified as held for sale on the consolidated balance sheet as at December 31, 2013, with their net book values written down to their sale proceeds. During the six months ended June 30, 2014, the Company realized a net loss of \$0.5 million from the sale of these vessels.

b) Asset Impairments and Loan Loss Recoveries

During the six months ended June 30, 2015, the carrying value of one of Teekay Offshore's 1992-built shuttle tankers was written down to its estimated fair value using an appraised value. The write down was a result of the expected sale of the vessel. The Company's consolidated statement of income loss for the six months ended June 30, 2015, includes a \$1.7 million write-down related to this vessel. The write-down is included in Company's shuttle tanker, FSO and offshore support segment. As at June 30, 2015, the Company classified this vessel as held for sale on its consolidated balance sheet.

During the six months ended June 30, 2015, the carrying value of one of Teekay Offshore's 1999-built shuttle tankers was written down to its estimate fair value using an appraised value. The write-down was a result of a change in the operating plan of the vessel. The Company's consolidated statement of income (loss) for the six months ended June 30, 2015, includes a \$13.8 million write-down related to this vessel. The write-down is included in the Company's shuttle tanker, FSO and offshore support segment.

During the three and six months ended June 30, 2014, the Company reversed a \$2.5 million loss provision for an amount receivable related to an FPSO front-end engineering and design study completed in 2013, as this receivable was recovered in the current period.

8. Long-Term Debt

	June 30, 2015	December 31, 2014
	\$	\$
Revolving Credit Facilities	1,712,840	1,766,822
Senior Notes (8.5%) due January 15, 2020	390,871	390,712
Norwegian Kroner-denominated Bonds due through May 2020	789,489	697,798
U.S. Dollar-denominated Term Loans due through 2026	3,478,535	3,103,255
U.S. Dollar Bonds due through 2024	517,983	492,918
Euro-denominated Term Loans due through 2023	255,316	284,993
Total	7,145,034	6,736,498
Less current portion	992,750	654,134
Long-term portion	6,152,284	6,082,364

As of June 30, 2015, the Company had 11 revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for aggregate borrowings of up to \$2.1 billion, of which \$0.3 billion was undrawn. Interest payments are based on LIBOR plus margins; at June 30, 2015 and December 31, 2014, the margins ranged between 0.45% and 3.95%. At June 30, 2015 and December 31, 2014, the three-month LIBOR was 0.28% and 0.26%, respectively. The total amount available under the Revolvers reduces by \$145.1 million (remainder of 2015), \$503.3 million (2016), \$526.8 million (2017), \$828.8 million (2018) and \$47.4 million (2019). The Revolvers are collateralized by first-priority mortgages granted on 45 of the Company's vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts. Other related security includes 23.8 million common units of Teekay Offshore and 25.2 million common units of Teekay LNG owned by Teekay which secure a \$500 million credit facility.

The Company's 8.5% senior unsecured notes (or the *8.5% Notes*) are due January 15, 2020 with an original principal amount of \$450 million. The 8.5% Notes were sold at a price equal to 99.181% of par and the discount is accreted through the maturity date of the notes using the effective interest rate of 8.625% per year. The Company capitalized issuance costs of \$9.4 million, which is recorded in other non-current assets in the consolidated balance sheet and is amortized to interest expense over the term of the 8.5% Notes. The 8.5% Notes rank equally in right of payment with all of Teekay's existing and future senior unsecured debt and senior to any future subordinated debt of Teekay. The 8.5% Notes are not guaranteed by any of Teekay's subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities of its subsidiaries.

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

The Company may redeem the 8.5% Notes in whole or in part at any time before their maturity date at a redemption price equal to the greater of (i) 100% of the principal amount of the 8.5% Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 8.5% Notes to be redeemed (excluding accrued interest), discounted to the redemption date on a semi-annual basis, at the treasury yield plus 50 basis points, plus accrued and unpaid interest to the redemption date. During 2014, the Company repurchased the principal amount of \$57.3 million of the 8.5% Notes at a premium of \$7.7 million and such amount is reflected in other income in the Company's consolidated statements of income (loss) as shown in Note 14 to the audited consolidated financial statements filed with the Company's Annual Report on Form 20-F for the year ended December 31, 2014.

Prior to 2015, Teekay Offshore, Teekay LNG and Teekay have issued in the Norwegian bond market a total of Norwegian Kroner (or *NOK*) 5.2 billion of senior unsecured bonds that mature between October 2015 and January 2019. As at June 30, 2015, the total carrying amount of the bonds was \$662.2 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin, which ranges from 4.00% to 5.75%. The Company entered into cross currency rate swaps to swap all interest and principal payments of the bonds into U.S. dollars (or *U.S. Dollars*), with the interest payments fixed at rates ranging from 4.94% to 7.49%, and the transfer of principal fixed at \$894.6 million upon maturity in exchange for NOK 5.2 billion (see Note 15).

In May 2015, Teekay LNG issued in the Norwegian bond market NOK 1,000 million in senior unsecured bonds that mature in May 2020. As of June 30, 2015, the carrying amount of the bonds was \$127.3 million. The interest payments on the bonds are based on NIBOR plus a margin of 3.70%. Teekay LNG entered into a cross currency swap to swap all interest and principal payments into US Dollars, with the interest payments fixed at a rate of 5.92%, and the transfer of the principal amount fixed at \$134.0 million upon maturity in exchange for NOK 1,000 million (see Note 15). The net proceeds from the bond offering were used for general partnership purposes. The bonds are listed on the Oslo Stock Exchange.

As of June 30, 2015, the Company had 23 U.S. Dollar-denominated term loans outstanding, which totaled \$3.5 billion in aggregate principal amount (December 31, 2014 \$3.1 billion). Certain of the term loans with a total outstanding principal balance of \$32.9 million as at June 30, 2015 (December 31, 2014 \$37.8 million) bear interest at a weighted-average fixed rate of 4.8% (December 31, 2014 4.8%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At June 30, 2015 and December 31, 2014, the margins ranged between 0.3% and 3.25%. At June 30, 2015 and December 31, 2014, the three-month LIBOR was 0.28% and 0.26%, respectively. The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and 21 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 48 (December 31, 2014 34) of the Company's vessels, together with certain other security. In addition, at June 30, 2015, all but \$68.7 million (December 31, 2014 \$79.3 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

During May 2014, Teekay Offshore issued \$300 million in senior unsecured bonds that mature in July 2019 in the U.S. bond market. As of June 30, 2015, the carrying amount of the bonds was \$300.0 million. The bonds were listed

on the New York Stock Exchange in June 2014. The interest payments on the bonds are fixed at a rate of 6.0%.

In September 2013 and November 2013, Teekay Offshore issued a total of \$174.2 million of ten-year senior unsecured bonds that mature in December 2023 and that were issued in a U.S. private placement to finance the *Bossa Nova Spirit* and the *Sertanejo Spirit* shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security. Teekay Offshore made semi-annual repayments on the bonds and as of June 30, 2015, the carrying amount of the bonds was \$160.8 million.

In February 2015, Teekay Offshore issued \$30.0 million in senior bonds that mature in June 2024 in a U.S. private placement. As of June 30, 2015, the carrying amount of the bonds was \$28.9 million. The interest payments on the bonds are fixed at a rate of 4.27%. The bonds are collateralized by first-priority mortgage on the *Dampier Spirit* FSO unit to which the bonds relate, together with other related security.

In August 2014, Teekay Offshore assumed Logitel's obligations under a bond agreement from Sevan as part of the acquisition. The bonds are retractable at par at any time by Teekay Offshore. As of June 30, 2015, the carrying amount of the bond was \$28.2 million.

The Company has two Euro-denominated term loans outstanding, which, as at June 30, 2015, totaled 229.2 million Euros (\$255.3 million) (December 31, 2014 235.6 million Euros (\$285.0 million)). The Company is repaying the loans with funds generated by two Euro-denominated, long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus a margin. At June 30, 2015 and December 31, 2014, the margins ranged between 0.6% and 2.25% and the one-month EURIBOR at June 30, 2015 was (0.06)% (December 31, 2014 0.02%). The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023, are collateralized by first-priority mortgages on two of the Company's vessels, together with certain other security, and are guaranteed by a subsidiary of Teekay.

Both Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Company's NOK-denominated bonds, the Company's Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Company's cross currency swaps, the Company recognized foreign exchange losses of \$1.6 million (2014 \$2.0 million loss) and gains of \$15.9 million (2014 \$2.9 million loss) during the three and six months ended June 30, 2015, respectively.

The weighted-average effective interest rate on the Company's aggregate long-term debt as at June 30, 2015 was 3.0% (December 31, 2014 3.2%). This rate does not include the effect of the Company's interest rate swap agreements (see Note 15).

Among other matters, the Company's long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and nine loan agreements require the maintenance of vessel market value to loan ratios. As at June 30, 2015, these ratios ranged from 133.3% to 861.1% compared to their minimum required ratios of 105% to 135%. The vessel values used in these ratios are the appraised values prepared by the Company based on second-hand sale and purchase market data. Changes in the conventional tanker market, FPSO market and a weakening of the LNG/LPG carrier market could negatively affect the ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at June 30, 2015 and December 31, 2014, this amount was \$100.0 million. Most of the loan agreements also require that the Company maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity, in amounts ranging from 5% to 7.5% of total debt. As at June 30, 2015, this aggregate amount was \$395.7 million (December 31, 2014 - \$368.1 million). As at June 30, 2015, the Company was in compliance with all covenants required by its credit facilities and other long-term debt.

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

Teekay's \$500 million revolving credit facility, of which \$410.0 was drawn at June 30, 2015, is secured by common units of Teekay Offshore and Teekay LNG that are owned by Teekay. During August 2015, as a result of the decline in the market value of those common units pledged as collateral, Teekay was required to repay \$148.0 million of the revolving credit facility, such that the resulting drawn loan-to-value ratio was no higher than 27.5%. If the aggregate market value of the pledged common units were to further decline to below \$867.2 million (aggregate market value was \$1.1 billion as at August 28, 2015), cash distributions Teekay receives from the pledged common units would be held as further collateral and the lenders would be entitled to amend the material terms of the facility, which Teekay would have the option to accept or repay the facility. Teekay is currently in discussions with the lenders to amend the current terms of this revolving credit facility.

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to June 30, 2015, are \$358.1 million (remainder of 2015), \$1.0 billion (2016), \$1.1 billion (2017), \$1.8 billion (2018), \$764.9 million (2019) and \$2.1 billion (thereafter).

9. Capital Stock

The authorized capital stock of Teekay at June 30, 2015 and December 31, 2014 was 25 million shares of preferred stock, with a par value of \$1 per share, and 725 million shares of common stock, with a par value of \$0.001 per share. As at June 30, 2015, Teekay had no shares of preferred stock issued. During the six months ended June 30, 2015, Teekay issued 0.2 million shares of common stock upon the exercise or issuance of stock options, restricted stock units and restricted stock awards.

During the six months ended June 30, 2015 and 2014, the Company granted 267,981 and 15,243 stock options with exercise prices of \$43.99 and \$56.76 per share, respectively, 64,988 and 81,388 restricted stock units with fair values of \$2.9 million and \$4.6 million, respectively, 61,774 and 50,689 performance shares both with a fair value of \$3.4 million, and 22,502 and 18,230 shares of restricted stock awards, respectively, both with a fair value of \$1.0 million, to certain of the Company's employees and directors. Each stock option has a ten-year term and vests equally over three years from the grant date. Each restricted stock unit, restricted stock award and performance share is equal in value to one share of the Company's common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date and the performance shares vest two or three years from the grant date. Upon vesting, the value of the restricted stock units, restricted stock awards and performance shares are paid to each grantee in the form of shares or cash. The number of performance share units that vest will range from zero to a multiple of the original number granted, based on certain performance and market conditions.

The weighted-average grant-date fair value of stock options granted during March 2015 was \$7.74 per stock option. The fair value of each stock option granted was estimated on the grant date using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the stock options granted: expected volatility of 31.1%; expected life of five years; dividend yield of 4.4%; risk-free interest rate of

1.4%; and estimated forfeiture rate of 12.8%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

Share-based Compensation of Subsidiaries

During the six months ended June 30, 2015 and 2014, 14,603 and 9,482 common units of Teekay Offshore, 10,447 and 9,521 common units of Teekay LNG and 38,961 and 17,073 shares of Class A common stock of Teekay Tankers, with aggregate values of \$0.9 million and \$0.8 million, respectively, were granted and issued to the non-management directors of the general partners of Teekay Offshore and Teekay LNG and the non-management directors of Teekay Tankers as part of their annual compensation for 2015 and 2014.

Teekay Offshore, Teekay LNG and Teekay Tankers grant equity-based compensation awards as incentive-based compensation to certain employees of Teekay's subsidiaries that provide services to Teekay Offshore, Teekay LNG and Teekay Tankers. During March 2015 and 2014, Teekay Offshore and Teekay LNG granted phantom unit awards and Teekay Tankers granted restricted stock-based compensation awards with respect to 101,543 and 67,569 units of Teekay Offshore, 32,054 and 31,961 units of Teekay LNG and 187,746 and 208,539 Class A common shares of Teekay Tankers, respectively, with aggregate grant date fair values of \$4.2 million and \$4.3 million, respectively, based on Teekay Offshore, Teekay LNG and Teekay Tankers' closing unit or stock prices on the grant dates. Each phantom unit or restricted stock unit is equal in value to one of Teekay Offshore's, Teekay LNG's or Teekay Tankers' common units or common shares plus reinvested distributions or dividends from the grant date to the vesting date. The awards vest equally over three years from the grant date. Any portion of an award that is not vested on the date of a recipient's termination of service is cancelled, unless their termination arises as a result of the recipient's retirement and, in this case, the award will continue to vest in accordance with the vesting schedule. Upon vesting, the awards are paid to a substantial majority of the grantees in the form of common units or common shares, net of withholding tax.

10. Commitments and Contingencies

a) Vessels Under Construction

As at June 30, 2015, the Company was committed to the construction of 11 LNG carriers, four long-haul towage vessels, two UMS, three shuttle tankers, one FSO conversion and one FPSO upgrade for a total cost of approximately \$3.8 billion, excluding capitalized interest and other miscellaneous construction costs. Vessels in which the Company holds an interest through non-wholly owned joint ventures are excluded from the above amounts and are described on Note 10c. Two LNG carriers are scheduled for delivery in 2016, three LNG carriers are scheduled for delivery in 2017, four LNG carriers are scheduled for delivery in 2018 and two LNG carriers are scheduled for delivery in 2019, four long-haul towage vessels are scheduled for delivery in 2016, two UMSs are scheduled for delivery in the third quarter of 2016 and the second quarter of 2017, three shuttle tankers are expected to be delivered in the fourth quarter of 2017 through the first half of 2018, the one FSO conversion is scheduled for completion in early-2017 and the one FPSO upgrade is scheduled for completion in mid-2016. As at June 30, 2015, payments made towards these commitments totaled \$808.5 million (excluding \$16.3 million of capitalized interest and other miscellaneous construction costs). As at June 30, 2015, the remaining payments required to be made under these newbuilding and conversion capital commitments were \$299.7 million (remainder of 2015), \$781.3 million (2016), \$1.0 billion (2017), \$619.4 million (2018) and \$237.8 million (2019).

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share data)****b) Purchase Obligations**

In October 2014, Teekay Offshore, through its wholly-owned subsidiary ALP, agreed to acquire six on-the-water, long-distance towing and offshore installation vessels for approximately \$222 million. The vessels were built between 2006 and 2010 and are all equipped with dynamic positioning capabilities. Teekay Offshore took delivery of five vessels during the six months ended June 30, 2015 for a total price of \$183.5 million, of which \$126.4 million was debt financed and \$57.1 million was financed through existing liquidity. The seller is currently in dispute with the previous management company of these vessels. To avoid disruption to the charters of these vessels, the seller has agreed to place \$42.1 million of the purchase price, as security, in escrow accounts to cover any potential liability that the seller may incur resulting from settling this dispute. This has no impact on Teekay Offshore. As at June 30, 2015, Teekay Offshore recorded a restricted cash balance and a corresponding liability of \$42.1 million relating to these five vessels. As at June 30, 2015, payments made towards these fully built-up commitments totaled \$183.5 million and the amount of the remaining payments required to be made is \$38.5 million (remainder of 2015) for the one additional vessel. In July 2015, Teekay Offshore took delivery of the remaining vessel.

c) Joint Ventures

As described in Note 4c, Teekay LNG acquired an ownership interest in the BG Joint Venture and, as part of the acquisition, agreed to assume BG's obligation to provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery dates pursuant to a ship construction support agreement. As at June 30, 2015, Teekay LNG had incurred \$2.6 million, net of reimbursement from BG, relating to shipbuilding and crew training services. The remaining estimated amounts to be incurred for the shipbuilding and crew training obligation, net of the reimbursement from BG, are \$3.4 million (remainder of 2015), \$4.2 million (2016), \$3.8 million (2017), \$4.1 million (2018) and \$0.4 million (2019).

In addition, the BG Joint Venture has a \$787.0 million debt facility to finance a portion of the estimated fully built-up cost of \$1.0 billion for its four newbuilding carriers, with the remaining portion to be financed pro-rata based on ownership interests by Teekay LNG and the other partners. As at June 30, 2015, Teekay LNG's proportionate share of the remaining newbuilding installments, net of the financing, totaled \$3.2 million (remainder of 2015), \$7.9 million (2016), \$15.0 million (2017), \$17.3 million (2018) and \$6.3 million (2019).

As described in Note 4b, Teekay LNG through the Yamal LNG Joint Venture, has a 50% ownership interest in six 172,000-cubic meter ARC7 LNG carrier newbuildings that have an estimated total fully built-up cost of approximately \$2.1 billion. As at June 30, 2015, Teekay LNG's proportionate costs incurred under these newbuilding contracts totaled \$98.5 million and Teekay LNG's proportionate share of the estimated remaining costs to be incurred is \$17.4 million (remainder of 2015), \$63.9 million (2016), \$97.7 million (2017), \$369.4 million (2018), \$211.6 million (2019) and \$197.7 million (thereafter). The Yamal LNG Joint Venture intends to secure debt financing for 70% to 80% of the fully built-up cost of the six newbuildings.

In October 2014, Teekay Offshore sold a 1995-built shuttle tanker, the *Navion Norvegia*, to its 50/50 joint venture with Odebrecht Oil & Gas S.A (or *Odebrecht*). The vessel is committed to a new FPSO conversion for the Libra field located in the Santos Basin offshore Brazil. The conversion project will be completed at Sembcorp Marine's Jurong Shipyard in Singapore and the FPSO unit is scheduled to commence operations in early-2017 under a 12-year fixed-rate contract with a consortium led by Petrobras. The FPSO conversion is expected to cost approximately \$1.0 billion. As at June 30, 2015, payments made by the joint venture towards these commitments totaled \$129.7 million and the remaining payments required to be made by the joint venture are \$356.2 million (remainder of 2015), \$497.8 million (2016) and \$25.5 million (2017). Teekay Offshore intends to finance its share of the conversion through its existing liquidity, proceeds from equity issuances and through long-term debt financing within the joint venture. The joint venture secured a \$248 million short-term loan in late- 2014, which was refinanced in July 2015 with a long-term debt facility of \$804 million for the FPSO unit.

Teekay, through a 50/50 joint venture (or the *KT Maritime Joint Venture*) with Kotug International B.V., has a 50% ownership interest in three infield support vessels type ART100-42 towage newbuildings that have an estimated total cost of approximately \$55.5 million and is expected to deliver during the first quarter of 2016. Teekay's proportionate costs to be incurred under these newbuilding contracts total \$27.8 million. As at June 30, 2015, payments made by the joint venture towards these commitments totaled \$7.9 million and the remaining payments required to be made by the joint venture are \$19.9 million (2016).

d) Legal Proceedings and Claims

The Company may, from time to time, be involved in legal proceedings and claims that arise in the ordinary course of business. The Company believes that any adverse outcome of existing claims, other than with respect to the two items noted below, individually or in the aggregate, would not have a material effect on its financial position, results of operations or cash flows, when taking into account its insurance coverage and indemnifications from charterers.

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, other than share data)***Teekay Nakilat Capital Lease*

As described under Note 10 in the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014, Teekay LNG owned a 70% interest in Teekay Nakilat Corporation (or *Teekay Nakilat Joint Venture*) that was the lessee under three separate 30-year capital lease arrangements with a third party for three LNG carriers (or *the RasGas II LNG Carriers*). Under the terms of the leasing arrangements for the RasGas II LNG Carriers, the lessor claimed tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks were assumed by the lessee, in this case the Teekay Nakilat Joint Venture. Lease payments under the lease arrangements were based on certain tax and financial assumptions at the commencement of the leases and subsequently adjusted to maintain the lessor's agreed after-tax margin. On December 22, 2014, the Teekay Nakilat Joint Venture terminated the leasing of the RasGas II LNG Carriers. However, the Teekay Nakilat Joint Venture remains obligated to the lessor to maintain the lessor's agreed after-tax margin from the commencement of the lease to the lease termination date and placed \$6.8 million on deposit with the lessor as security against any future claims.

The UK taxing authority (or *HMRC*) has been challenging the use of similar lease structures. One of those challenges resulted in a court decision from the First Tribunal in January 2012 regarding a similar financial lease of an LNG carrier that ruled in favor of the taxpayer, as well as a 2013 decision from the Upper Tribunal that upheld the 2012 verdict. However, HMRC appealed the 2013 decision to the Court of Appeal and in August 2014, HMRC was successful in having the judgment of the First Tribunal (in favor of the taxpayer) set aside. The matter was reconsidered by the First Tribunal in February 2015, taking into account the appellate court's comments on the earlier judgment, and the First Tribunal recently ruled in favor of HMRC. If the lessor of the RasGas II LNG Carriers were to lose on a similar claim from HMRC, Teekay LNG's 70% share of the potential exposure in the Teekay Nakilat Joint Venture is estimated to be approximately \$60 million. Such estimate is primarily based on information received from the lessor.

Petrojarl Banff Storm Damage

On December 7, 2011, the Petrojarl Banff FPSO unit (or *Banff*), which operates on the Banff field in the U.K. sector of the North Sea, suffered a severe storm event and sustained damage to its moorings, turret and subsea equipment, which necessitated the shutdown of production on the unit. Due to the damage, Teekay declared force majeure under the customer contract on December 8, 2011 and the *Banff* FPSO unit commenced a period of off-hire while the necessary repairs and upgrades were completed and the weather permitted re-installation of the unit on the Banff field. The Company does not have off-hire insurance covering the *Banff* FPSO. The repairs and upgrades were completed in 2014, and the *Banff* FPSO unit resumed production on the Banff field in July 2014. In May 2015, the Company entered into a commercial settlement agreement with the charterer whereby the charterer agreed to contribute approximately \$55 million towards the upgrade costs. No claims remain outstanding on this matter.

e) Redeemable Non-Controlling Interest

During 2010, an unrelated party contributed a shuttle tanker with a value of \$35.0 million to a subsidiary of Teekay Offshore for a 33% equity interest in the subsidiary. The non-controlling interest owner of Teekay Offshore's 67% owned subsidiary holds a put option which, if exercised, would obligate Teekay Offshore to purchase the non-controlling interest owner's 33% share in the entity for cash in accordance with a defined formula. This redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at June 30, 2015.

f) Other

The Company enters into indemnification agreements with certain officers and directors. In addition, the Company enters into other indemnification agreements in the ordinary course of business. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company maintains what it believes is appropriate liability insurance that reduces its exposure and enables the Company to recover future amounts paid up to the maximum amount of the insurance coverage, less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

11. Financial Instruments**a) Fair Value Measurements**

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see Note 11 in the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis as well as the estimated fair value of the Company's financial instruments that are not accounted for at fair value on a recurring basis.

		June 30, 2015		December 31, 2014	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		Asset (Liability) \$	Asset (Liability) \$	Asset (Liability) \$	Asset (Liability) \$
Recurring					
Cash and cash equivalents, restricted cash, and marketable securities	Level 1	864,631	864,631	927,679	927,679
Derivative instruments (note 15)					
Interest rate swap agreements assets	Level 2	2,123	2,123	1,051	1,051
Interest rate swap agreements liabilities	Level 2	(363,888)	(363,888)	(406,783)	(406,783)
Cross currency interest swap agreement	Level 2	(264,244)	(264,244)	(221,391)	(221,391)
Foreign currency contracts	Level 2	(15,349)	(15,349)	(18,407)	(18,407)
Stock purchase warrants (notes 4e and 15)	Level 3	11,051	11,051	9,314	9,314
Logitel contingent consideration (see below)	Level 3	(15,292)	(15,292)	(21,448)	(21,448)
Other					
Loans to equity-accounted investees and joint venture partners					
Current	(1)	16,262	(1)	26,209	(1)
	(1)	218,192	(1)	227,217	(1)

Loans to equity-accounted investees and joint venture partners	Long-term					
Long-term receivable included in accounts receivable and other assets ⁽²⁾		Level 3	17,323	17,321	17,137	17,164
Long-term debt public (note 8)		Level 1	(1,480,360)	(1,498,219)	(1,554,609)	(1,574,440)
Long-term debt non-public (note 8)		Level 2	(5,664,674)	(5,578,460)	(5,181,889)	(5,094,857)

- (1) In the consolidated financial statements, the Company's loans to and equity investments in equity-accounted investees form the aggregate carrying value of the Company's interests in entities accounted for by the equity method. In addition, the loans to joint venture partners together with the joint venture partner's equity investment in joint ventures form the net aggregate carrying value of the Company's interest in the joint ventures. The fair value of the individual components of such aggregate interests is not determinable.
- (2) As described in Note 11 in the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year-ended December 31, 2014, the estimated fair value of the non-interest bearing receivable from BG is based on the remaining future fixed payments as well as an estimated discount rate. The estimated fair value of this receivable as of June 30, 2015 is \$17.3 million using a discount rate of 8.0%. As there is no market rate for the equivalent of an unsecured non-interest bearing receivable from BG, the discount rate is based on unsecured debt instruments of similar maturity held, adjusted for a liquidity premium. A higher or lower discount rate would result in a lower or higher fair value asset.

Stock purchase warrants Changes in fair value during the three and six months ended June 30, 2015 and 2014 for the Company's derivative instrument, TIL stock purchase warrants, which are described below and are measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Fair value at the beginning of the period	9,234	11,714	9,314	
Fair value on issuance				6,840
Unrealized gain (loss) included in earnings	1,817	(3,663)	1,737	1,211
Fair value at the end of the period	11,051	8,051	11,051	8,051

During January 2014, the Company received from TIL stock purchase warrants entitling it to purchase up to 1.5 million shares of the common stock of TIL (see Note 15). The estimated fair value of the stock purchase warrants was determined using a Monte-Carlo simulation and is based, in part, on the historical price of common shares of TIL, the risk-free rate, vesting conditions and the historical volatility of comparable companies. The estimated fair value of these stock purchase warrants as of June 30, 2015 is based on the historical volatility of the comparable companies of 53.3%. A higher or lower volatility would result in a higher or lower fair value of this derivative asset.

Logitel contingent consideration liability In August 2014, Teekay Offshore acquired 100% of the outstanding shares of Logitel, a Norway-based company focused on high-end UMS, from Cefront Technology AS (or *Cefront*) for \$4 million, which was paid in cash at closing, plus a potential additional amount of up to \$27.6 million, depending on

certain performance criteria, which is payable from mid-2015 to early-2018 (see Note 4a).

Teekay Offshore will owe an additional amount of up to \$27.6 million if there are no yard cost overruns and no charterer late delivery penalties; the two unchartered UMS under construction are chartered above specified rates; and no material defects from construction are identified within one year after the delivery of each UMS. To the extent such events occur, the potential additional amount of \$27.6 million will be reduced in accordance with the terms of the purchase agreement. The estimated fair value of the contingent consideration liability of \$15.3 million at June 30, 2015 is the amount Teekay Offshore expects to pay to Cefront discounted to its present value using a weighted average cost of capital rate of 11.5%. As of June 30, 2015, the amount of the expected payments for each UMS was based upon the status of the construction project for the remaining two UMS newbuildings, the state of the charter market for the remaining two UMS newbuildings, the expectation of potential material defects for each UMS, and, to a lesser extent, the timing of delivery of the remaining two UMS newbuildings. An increase (decrease) in Teekay Offshore's estimates of yard cost overruns, charterer late delivery penalties, material defects and the discount rate, as well as a decrease (increase) in Teekay Offshore's estimates of day rates at which it expects to charter the two unchartered UMS, will decrease (increase) the estimated fair value of the contingent consideration liability.

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Changes in the estimated fair value of Teekay Offshore's contingent consideration liability relating to the acquisition of Logitel, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), during the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Balance at beginning of period	(21,562)		(21,448)	
Settlement of liability	3,540		3,540	
Adjustment to liability (note 4a)	2,569		2,569	
Unrealized gain included in other income	161		47	
Balance at end of period	(15,292)		(15,292)	

b. Financing Receivables

The following table contains a summary of the Company's financing receivables by type of borrower and the method by which the Company monitors the credit quality of its financing receivables on a quarterly basis.

Class of Financing Receivable	Credit Quality Indicator	Grade	June 30, 2015	December 31, 2014
			\$	\$
Direct financing leases	Payment activity	Performing	693,532	704,953
Other loan receivables				
Loans to equity-accounted investees and joint venture partners	Other internal metrics	Performing	234,454	253,426
Long-term receivable included in other assets	Payment activity	Performing	41,118	43,843
			969,104	1,002,222

12. Restructuring Reversals (Charges)

During the three and six months ended June 30, 2015, the Company recorded restructuring reversals (charges) of \$0.7 million (\$0.2 million 2014) and \$(8.4) million (\$(0.4) million 2014), respectively. The restructuring charges during the six months ended June 30, 2015 relate to the termination of the employment of certain seafarers upon the expiration of a time-charter out contract and the reorganization of the Company's marine operations and corporate services. The restructuring reversals during the three months ended June 30, 2015 relate to reductions to the charges previously accrued as certain seafarers were not terminated as initially planned. The actual restructuring charges were fully reimbursed to the Company by the charterer and the net reimbursement is included in revenues. The restructuring charges in 2014 relate to the termination of the employment of certain seafarers from the reflagging of one shuttle tanker which commenced in January 2014 and was completed in March 2014 and the reversal of an accrual for costs related to the reorganization of the Company's marine operations.

At June 30, 2015 and December 31, 2014, \$2.4 million and \$9.0 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

13. Other (Loss) Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
TIL stock purchase warrants received				6,839
Volatile organic compound emission plant lease loss	(14)	(166)	(54)	(67)
Impairment of marketable securities	(683)		(683)	
Miscellaneous income (loss)	308	(568)	723	745
Other (loss) income	(389)	(734)	(14)	7,517

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

14. Accumulated Other Comprehensive Loss

As at June 30, 2015 and December 31, 2014, the Company's accumulated other comprehensive loss consisted of the following components:

	June 30, 2015	December 31, 2014
	\$	\$
Unrealized loss on qualifying cash flow hedging instruments	(365)	(468)
Pension adjustments, net of tax recoveries	(30,073)	(29,888)
Unrealized loss on marketable securities	(430)	
Foreign exchange gain on currency translation	1,405	2,058
	(29,463)	(28,298)

15. Derivative Instruments and Hedging Activities

The Company uses derivatives to manage certain risks in accordance with its overall risk management policies.

Foreign Exchange Risk

The Company economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts.

As at June 30, 2015, the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency	Average Forward Rate ⁽¹⁾	Fair Value / Carrying Amount Of Asset (Liability)	Expected Maturity		
			\$	2015	2016	2017
			\$	\$	\$	\$
Euro	23,137	0.88	(593)	24,011	2,413	
Norwegian Kroner	993,500	7.06	(14,809)	55,440	76,728	8,585
Singapore Dollar	22,442	1.36	53		16,537	

(15,349) 79,451 95,678 8,585

(1) Average contractual exchange rate represents the contracted amount of foreign currency one U.S. Dollar will buy. The Company enters into cross currency swaps, pursuant to which the Company receives the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal at maturity of the Company's NOK-denominated bonds due in 2015 through 2020. In addition, the cross currency swaps economically hedge the interest rate exposure on the NOK bonds due in 2015 through 2020. The Company has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK-denominated bonds due in 2015 through 2020. As at June 30, 2015, the Company was committed to the following cross currency swaps:

Notional Amount NOK	Notional Amount USD	Floating Rate Receivable		Fixed Rate Payable	Fair Value / Carrying	Remaining Term (years)
		Reference Rate	Margin		Amount of Asset / (Liability)	
700,000	122,800	NIBOR	4.75%	5.52%	(34,288)	0.3
500,000	89,710	NIBOR	4.00%	4.94%	(26,776)	0.6
600,000	101,351	NIBOR	5.75%	7.49%	(28,252)	1.6
700,000	125,000	NIBOR	5.25%	6.88%	(39,938)	1.8
800,000	143,536	NIBOR	4.75%	6.07%	(44,925)	2.6
900,000	150,000	NIBOR	4.35%	6.43%	(40,398)	3.2
1,000,000	162,200	NIBOR	4.25%	6.42%	(40,604)	3.6
1,000,000	134,000	NIBOR	3.70%	5.92%	(9,063)	4.9
					(264,244)	

Interest Rate Risk

The Company enters into interest rate swap agreements, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. The Company has not designated any of its interest rate swap agreements in its consolidated entities as cash flow hedges for accounting purposes.

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

As at June 30, 2015, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt and EURIBOR-based debt, whereby certain of the Company's floating-rate debt were swapped with fixed-rate obligations:

	Interest Rate Index	Principal Amount \$	Fair Value / Carrying Amount of Asset / (Liability) \$	Weighted- Average Remaining Term (years)	Fixed Interest Rate (%) (1)
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps ⁽²⁾	LIBOR	3,203,703	(305,934)	5.8	3.4
U.S. Dollar-denominated interest rate swaps ⁽³⁾	LIBOR	500,000	(20,550)	0.5	3.1
U.S. Dollar-denominated interest rate swaption ⁽⁴⁾	LIBOR	155,000	(1,365)	7.5	2.2
U.S. Dollar-denominated interest rate swaption ⁽⁴⁾	LIBOR	155,000	1,958	7.5	3.3
LIBOR-Based Restricted Cash Deposit:					
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps ⁽⁵⁾ ⁽⁶⁾	EURIBOR	255,316	(35,874)	5.5	3.1
			(361,765)		

- (1) Excludes the margins the Company pays on its variable-rate debt, which, as of June 30, 2015, ranged from 0.3% to 3.95%.
- (2) Principal amount of \$200 million is fixed at 2.14%, unless LIBOR exceeds 6%, in which case the Company pays a floating rate of interest.
- (3) Interest rate swap with an aggregate principal amount of \$180 million is being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2016 to 2028. The interest rate swap is subject to mandatory early termination in 2015 whereby the swap will be settled based on its fair value at that time. Interest rate swaps with an aggregate principal amount of \$320 million are being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2016 to 2021. These interest rate swaps are subject to mandatory early termination in 2016 whereby the swaps will be settled based on their fair value at that time.
- (4) During June 2015, as part of its hedging program, Teekay LNG entered into an interest rate swaption agreement whereby it has a one-time option in April 2017 to enter into an interest rate swap at a fixed rate of 3.34% with a third party, and the third party has a one-time option in April 2017 to require Teekay LNG to enter into an

interest swap at a fixed rate of 2.15%. If Teekay LNG or the third party exercises its option, there will be a cash settlement in April 2017 for the fair value of the interest rate swap, in lieu of taking delivery of the actual interest rate swap.

- (5) Principal amount reduces monthly to 70.1 million Euros (\$78.1 million) by the maturity dates of the swap agreements.
- (6) Principal amount is the U.S. Dollar equivalent of 229.2 million Euros.

Stock Purchase Warrants

In January 2014, Teekay and Teekay Tankers formed TIL. Teekay and Teekay Tankers invested a total of \$50.0 million for an aggregate of 5.0 million shares of TIL's common stock, representing an initial 20% interest in TIL, as part of a \$250 million private placement by TIL. In addition, Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase an aggregate of up to 1.5 million shares of common stock of TIL at a fixed price of \$10 per share. Alternatively, if the shares of TIL's common stock trade on a national stock exchange or over-the-counter market denominated in NOK, Teekay and Teekay Tankers may also exercise their stock purchase warrants at 61.67 NOK per share using a cashless exercise procedure. The estimated fair value of the warrants on issuance was \$6.8 million and is included in other income in the consolidated statements of income (loss). The stock purchase warrants vest in four equally sized tranches. If the shares of TIL's common stock trade on a national stock exchange or over-the-counter market denominated in NOK, each tranche will vest and become exercisable when and if the fair market value of a share of TIL's common stock equals or exceeds 77.08 NOK, 92.50 NOK, 107.91 NOK and 123.33 NOK, respectively, for such tranche for any ten consecutive trading days. The stock purchase warrants expire on January 23, 2019. The fair value of the stock purchase warrants at June 30, 2015 was \$11.1 million. The Company reports the unrealized gains from the stock purchase warrants in realized and unrealized losses on non-designated derivatives in the consolidated statements of income (loss).

Tabular Disclosure

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

	Prepays and Other	Derivative Assets	Accrued Liabilities	Current Portion of Derivative Liabilities	Derivative Liabilities
As at June 30, 2015					
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	88	556		(13,797)	(2,196)
Interest rate swap agreements		6,769	(19,016)	(119,334)	(230,184)
Cross currency swap agreements			(2,538)	(74,705)	(187,001)
Stock purchase warrants		11,051			
	88	18,376	(21,554)	(207,836)	(419,381)
As at December 31, 2014					
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts				(14,218)	(4,189)
Interest rate swap agreements		5,101	(22,656)	(148,006)	(240,171)
Cross currency swap agreements			(1,835)	(41,733)	(177,822)
Stock purchase warrants		9,314			

14,415 (24,491) (203,957) (422,182)

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

As at June 30, 2015, the Company had multiple interest rate swaps, cross currency swaps and foreign currency forward contracts with the same counterparties that are subject to the same master agreements. Each of these master agreements provides for the net settlement of all derivatives subject to that master agreement through a single payment in the event of default or termination of any one derivative. The fair value of these derivatives is presented on a gross basis in the Company's consolidated balance sheets. As at June 30, 2015, these derivatives had an aggregate fair value asset of nil and an aggregate fair value liability of \$496.5 million. As at June 30, 2015, the Company had \$77.8 million on deposit with the relevant counterparties as security for swap liabilities under certain master agreements. The deposit is presented in restricted cash on the consolidated balance sheets.

Realized and unrealized gains (losses) and from derivative instruments that are not designated for accounting purposes as cash flow hedges are recognized in earnings and reported in realized and unrealized losses on non-designated derivatives in the consolidated statements of income (loss). The effect of the gains and (losses) on derivatives not designated as hedging instruments in the consolidated statements of income (loss) are as follows:

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,		June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Realized (losses) gains relating to:				
Interest rate swap agreements	(27,205)	(30,755)	(55,094)	(60,245)
Interest rate swap agreement terminations				1,000
Foreign currency forward contracts	(4,232)	110	(9,660)	(1,175)
	(31,437)	(30,645)	(64,754)	(60,420)
Unrealized gains (losses) relating to:				
Interest rate swap agreements	83,986	(39,096)	40,326	(64,494)
Foreign currency forward contracts	9,386	(1,926)	3,057	1,125
Stock purchase warrants	1,817	(3,664)	1,737	1,210
	95,189	(44,686)	45,120	(62,159)
Total realized and unrealized gains (losses) on derivative instruments	63,752	(75,331)	(19,634)	(122,579)

Realized and unrealized gains (losses) of the cross currency swaps are recognized in earnings and reported in foreign currency exchange (loss) gain in the consolidated statements of income. The effect of the gains (losses) on cross

currency swaps on the consolidated statements of income (loss) is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Realized losses	(3,771)	(144)	(7,934)	(289)
Unrealized gains (losses)	13,501	(24,803)	(42,152)	(11,481)
Total realized and unrealized gains (losses) on cross currency swaps	9,730	(24,947)	(50,086)	(11,770)

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company is exposed to credit loss if the counterparties to its foreign currency forward contracts, and cross currency and interest rate swap agreements fail to perform; however, the Company does not anticipate non-performance by any of the counterparties. 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 of the transaction. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

16. Income Tax (Expense) Recovery

The components of the provision for income tax (expense) recovery are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Current	(2,630)	(3,398)	(2,828)	(6,563)
Deferred	1,878	205	3,071	572
Income tax (expense) recovery	(752)	(3,193)	243	(5,991)

The following reflects the changes in the Company's unrecognized tax benefits, recorded in other long-term liabilities, from December 31, 2014 to June 30, 2015:

Balance of unrecognized tax benefits as at January 1, 2015	\$ 20,335
Increase for positions related to the current period	1,802
Decrease related to statute of limitations	(1,447)
Balance of unrecognized tax benefits as at June 30, 2015	\$ 20,690

The majority of the net increase for positions for the six months ended June 30, 2015 relates to potential tax on freight income.

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

17. Net Income (Loss) Per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Net income (loss) attributable to shareholders of Teekay Corporation	65,912	(42,987)	56,148	(43,475)
Weighted average number of common shares	72,697,121	72,036,526	72,623,503	71,687,549
Dilutive effect of stock-based compensation	780,559		755,724	
Common stock and common stock equivalents	73,477,680	72,036,526	73,379,228	71,687,549
Income (Loss) per common share:				
Basic	0.91	(0.60)	0.77	(0.61)
Diluted	0.90	(0.60)	0.77	(0.61)

Stock-based awards, which have an anti-dilutive effect on the calculation of diluted loss per common share, are excluded from this calculation. For the three and six months ended June 30, 2015, options to acquire 0.4 million shares of Common Stock had an anti-dilutive effect on the calculation of diluted income per common share. In periods where a loss attributable to shareholders of Teekay has been incurred all stock-based awards are anti-dilutive.

18. Supplemental Cash Flow Information

In March 2014, the Company took ownership of three very large crude carriers (or *VLCCs*), which were collateral for all amounts owing under the investment in term loans, and the investment in term loans was concurrently discharged. The VLCCs had an estimated fair value of \$222.0 million on that date, which approximated all the amounts owing under the investment in term loans. During the first quarter of 2014, second-hand vessel values for VLCCs increased and, as a result, the Company recognized \$15.2 million of interest income owing under the investment in term loans in that period. The assumption of ownership of the VLCCs and concurrent discharge of the loans has been treated as a non-cash transaction in the Company's statement of cash flows.

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

As described under Note 10 in the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014, the sale of the *Algeciras Spirit* in February 2014, resulted in the vessel under capital lease being returned to the owner and the capital lease obligation being concurrently extinguished. As a result, the sale of the vessel under capital lease of \$30.1 million and the concurrent extinguishment of the corresponding capital lease obligation for \$30.1 million was treated as non-cash transaction in the Company's consolidated statements of cash flows.

As described under Note 1 in the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014, the portion of the dividends declared by the Teekay Tangguh Joint Venture in February 2014 that was used to settle advances made by the Teekay Tangguh Joint Venture to BLT LNG Tangguh Corporation and P.T. Berlian Laju Tanker of \$14.4 million was treated as a non-cash transaction in the Company's consolidated statements of cash flows.

As described in Notes 4c and 10c, in June 2014 Teekay LNG acquired BG's ownership interest in the BG Joint Ventures. As compensation, Teekay LNG assumed BG's obligation (net of an agreement by BG to pay Teekay LNG approximately \$20.3 million) to provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery dates pursuant to a ship construction support agreement. The fair value of the assumed obligation of approximately \$30.2 million was used to offset the purchase price and Teekay LNG's receivable from BG and was treated as a non-cash transaction in the consolidated statement of cash flows.

19. Subsequent Events

- a) In June 2015, the *Petrojarl Knarr* completed all required operational testing and commenced its full charter rate under its six-year fixed-rate charter contract, plus extension options, on the Knarr oil and gas field in the North Sea where BG Norge Limited is the operator. On July 1, 2015, Teekay completed the sale of the *Petrojarl Knarr* FPSO unit to Teekay Offshore for a fully built-up cost of approximately \$1.26 billion. The acquisition by Teekay Offshore was initially financed through the assumption of an existing \$745 million long-term debt facility and a \$492 million convertible promissory note issued by Teekay Offshore to Teekay. During July 2015, Teekay Offshore repaid \$92 million, plus accrued interest, of the convertible promissory note to Teekay and exercised the mandatory conversion of \$300 million of the outstanding principal balance on the note into Teekay Offshore's common units at a price of \$20.83 per common unit. The \$745 million long-term debt facility contains five-tranches with varying maturity dates from 2020 through 2026, of which the \$73.4 million tranche maturing in 2020 includes a final bullet payment of \$40 million and all of which reduce over time with semi-annual payments, and is collateralized by a first-priority mortgage over the *Petrojarl Knarr* FPSO unit and is guaranteed by Teekay Offshore.

- b) In July 2015, Teekay Offshore issued \$250 million of Series C Convertible Preferred Units (*the Series C Preferred Units*) at a price of \$23.95 per unit in a private placement. Teekay Offshore used the net proceeds from the private placement to partially finance the acquisition of the *Petrojarl Knarr* FPSO unit from Teekay and the initial installments of the three shuttle tanker newbuildings for the east coast of Canada contract. The distribution rate for the Series C Preferred Units is 8.6% per annum and the Series C Preferred Units are convertible into Teekay Offshore's common units on a one-for-one basis at any time after 18 months at a price of \$23.95 per unit.
- c) In August 2015, Teekay Tankers agreed to acquire 12 modern Suezmax tankers from Principal Maritime Tankers Corporation (or *Principal Maritime*) for an aggregate purchase price of \$662.0 million, consisting of \$612.0 million in cash and approximately 7.2 million shares of Teekay Tankers' Class A common stock. The vessels are scheduled to deliver by the end of October 2015 and are expected to trade in the spot tanker market upon delivery or soon thereafter. To finance the acquisition, in August 2015, Teekay Tankers has secured commitments for a \$397.2 million loan facility maturing January 29, 2016, issued approximately 13.6 million shares of Class A common stock for net proceeds of \$90.6 million, of which approximately 4.5 million shares were issued to Teekay, and the remainder of purchase price is expected to be financed with existing liquidity.
- d) In July 2015, Teekay Tankers acquired the ship-to-ship transfer business (or *SPT*) from Teekay and a Norway-based marine transportation company, I.M. Skaugen SE, for a purchase price of \$45.5 million. SPT provides a full suite of ship-to-ship (or *STS*) transfer services in the oil, gas and dry bulk industries. In addition to full service lightering and lightering support, it also provides consultancy, terminal management and project development services. In connection with the SPT acquisition, in July 2015, Teekay Tankers issued approximately 6.5 million shares of Class B common stock to Teekay Holdings Ltd., a wholly-owned subsidiary of Teekay, for net proceeds of \$45.5 million. These shares of Class B common stock were priced at approximately \$6.99 per share.
- e) Teekay's \$500 million revolving credit facility, of which \$410.0 was drawn at June 30, 2015, is secured by common units of Teekay Offshore and Teekay LNG that are owned by Teekay. During August 2015, as a result of the decline in the market value of those common units pledged as collateral, Teekay was required to repay \$148.0 million of the revolving credit facility, such that the resulting drawn loan-to-value ratio was no higher than 27.5% (see Note 8).

Table of Contents

TEEKAY CORPORATION AND SUBSIDIARIES

JUNE 30, 2015

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 unaudited consolidated financial statements and accompanying notes contained in Item 1 Financial Statements of this Report on Form 6-K and with our audited consolidated financial statements contained in Item 18 Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 5 Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the year ended December 31, 2014.

Overview

Teekay Corporation (or *Teekay*) operates in the marine midstream space. We have general and limited partnership interests in two publicly-listed partnerships, Teekay Offshore Partners L.P. (or *Teekay Offshore*) and Teekay LNG Partners L.P. (or *Teekay LNG*). In addition, we have a controlling ownership interest in publicly-listed Teekay Tankers Ltd. (or *Teekay Tankers*) and we have a fleet of directly-owned vessels. The combined Teekay entities manage and operate consolidated assets of approximately \$12.5 billion, comprised of over 220 liquefied gas, offshore, and conventional tanker assets. With offices in 15 countries and approximately 6,700 seagoing and shore-based employees, Teekay provides a comprehensive set of marine services to the world's leading oil and gas companies.

Structure

To understand our financial condition and results of operations, a general understanding of our organizational structure is required. Our organizational structure can be divided into (a) our controlling interests in our publicly-listed subsidiaries Teekay Offshore, Teekay LNG and Teekay Tankers (or *the Daughter Companies*), and (b) Teekay and its remaining subsidiaries, which is referred to in this Report as *Teekay Parent*. For further information on our organizational structure, please read Item 5. Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations Structure, in our Annual Report on Form 20-F for the year ended December 31, 2014.

RECENT DEVELOPMENTS AND RESULTS OF OPERATIONS

The results of operations that follow has first been divided into (a) our controlling interests in our subsidiaries Teekay Offshore, Teekay LNG and Teekay Tankers and (b) Teekay Parent. Within each of these four groups, we have further subdivided the results into their respective lines of business, which generally align with the segments in our consolidated financial statements. The following table presents revenue and income from vessel operations for each of these three subsidiaries and Teekay Parent and how they reconcile to our consolidated financial statements.

Revenues

Income from Vessel Operations

(in thousands of U.S. Dollars)	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
Teekay Offshore	255,758	241,402	506,669	500,636	77,644	56,280	142,684	118,622
Teekay LNG	98,608	101,323	195,934	202,813	43,856	46,052	88,953	91,435
Teekay Tankers	107,594	44,433	211,472	106,192	43,668	10,491	83,972	31,271
Teekay Parent	157,436	94,054	275,674	206,559	8,432	(33,374)	(4,557)	(50,012)
Elimination of intercompany amounts ⁽¹⁾⁽²⁾	(26,599)	(28,958)	(51,090)	(57,452)	1,917		1,890	
Teekay Corporation Consolidated	592,797	452,254	1,138,659	958,748	175,517	79,449	312,942	191,316

- (1) During the three and six months ended June 30, 2015, Teekay chartered in three floating storage and off-take (or *FSO*) units, two shuttle tankers and four Aframax tankers from Teekay Offshore, and two liquefied natural gas (or *LNG*) carriers from Teekay LNG. During the three and six months ended June 30, 2014, Teekay chartered in two *FSO* units, two shuttle tankers and four Aframax tankers from Teekay Offshore, two *LNG* carriers from Teekay LNG and two Aframax tankers from Teekay Tankers. Internal charter hire between Teekay Parent and its subsidiaries Teekay Offshore, Teekay LNG and Teekay Tankers are eliminated upon consolidation.
- (2) During August 2014, Teekay sold to Teekay Tankers a 50% interest in Teekay Tankers Operations Ltd (or *TTOL*), which owns our conventional tanker commercial management and technical management operations, including direct ownership in three commercially managed tanker pools of the Teekay group. Teekay Tankers and Teekay Parent each account for their 50% interests in *TTOL* as equity-accounted investments and, as such, *TTOL*'s results are reflected in equity income of Teekay Tankers and Teekay Parent. Upon consolidation of Teekay Tankers into Teekay, the results of *TTOL* are accounted for on a consolidated basis by Teekay. The impact on income from vessel operations of consolidating *TTOL* for the three and six months ended June 30, 2015, was an increase of \$1.9 million for both periods.

In this Report, Note 3 Segment Reporting to our consolidated financial statements for the three and six months ended June 30, 2015 and 2014, contains our financial statement segment results, which generally align with our four primary lines of business, consisting of offshore logistics, offshore production, liquefied gas carriers and conventional tankers. Our financial statement segment results reflect the complete elimination of all intercompany arrangements, including intercompany charters, management services and business development fees. The results of the lines of business within each of Teekay Offshore, Teekay LNG, Teekay Tankers and Teekay Parent are contained in the tables and discussion below. Unlike the financial statement segments, the amounts in the tables below do not include the elimination of intercompany arrangements. For example, the internal charter hire from a conventional tanker chartered from Teekay Offshore to Teekay Parent will be reflected as revenue in conventional tanker results for Teekay Offshore and time-charter-hire expense for Teekay Parent. In addition, certain results of the four primary lines of business in Teekay Parent are reflected in Other and Corporate G&A given their smaller size in Teekay Parent, but they are reflected in their respective segments within the consolidated financial statements.

Table of Contents

There are a number of factors that should be considered when evaluating our historical financial performance and assessing our future prospects and we use a variety of financial and operational terms and concepts when analyzing our results of operations. These items 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, 2014.

In accordance with United States generally accepted accounting principles (or *GAAP*), we report gross revenues in our income statements and include voyage expenses among our operating expenses. However, shipowners often base economic decisions regarding the deployment of their vessels upon anticipated time-charter equivalent (or *TCE*) rates and industry analysts typically measure shipping freight rates in terms of TCE rates. This is because under time charter contracts and FPSO service contracts the customer usually pays the voyage expenses while under voyage charters and contracts of affreightment the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Accordingly, the discussion of revenue below focuses on net revenues (i.e. revenues less voyage expenses), a non-GAAP measure, and TCE rates where applicable.

Global crude oil prices have significantly declined since mid-2014. The significant decline in oil prices has also contributed to depressed natural gas prices. A continuation of lower oil prices or a further decline in oil prices may adversely affect investment in the exploration for or development of new or existing offshore projects and limit our growth opportunities, as well as reduce our revenues under volume- or production-based contracts or upon entering into replacement or new charter contracts. Likewise, lower oil prices may negatively affect both the competitiveness of natural gas as a fuel for power generation and the market price of natural gas, to the extent that natural gas prices are benchmarked to the price of crude oil. These factors also may adversely affect investment in the exploration for or development of new or existing LNG projects and limit our growth opportunities in the LNG sector, as well as reduce our revenues upon entering into replacement or new LNG charter contracts.

Teekay Offshore**Recent Developments in Teekay Offshore**

In June 2011, we entered into a contract with BG Norge Limited (or *BG*) to provide a harsh weather FPSO unit to operate in the North Sea. The contract is being serviced by a newbuilding FPSO unit, the *Petrojarl Knarr* (or *Knarr*), which commenced its charter contract with BG in March 2015 on partial charter rate. In June 2015, the *Knarr* completed its operational testing and commenced its full charter rate and on July 1, 2015, we completed the sale of the *Knarr* to Teekay Offshore. The purchase price for the *Knarr*, which is based on a fully built-up cost of approximately \$1.26 billion, was initially financed through Teekay Offshore's assumption of an existing \$745 million long-term debt facility and a \$492 million convertible promissory note issued by Teekay Offshore to us. During July 2015, Teekay Offshore repaid \$92 million, plus accrued interest, of the convertible promissory note to Teekay and exercised the mandatory conversion of \$300 million of the outstanding principal balance on the note into Teekay Offshore's common units at a price of \$20.83 per common unit. Please read Item 1 Financial Statements: Note 19a Subsequent Events.

In early-June 2015, Teekay Offshore entered into long-term contracts with a group of companies to provide shuttle tanker services on the east coast of Canada. These 15-year contracts, plus extension options, are initially being serviced by three third-party owned shuttle tankers currently operating on the east coast of Canada, which are in-chartered by Teekay Offshore. One of these vessels is expected to be replaced by one of Teekay Offshore's existing shuttle tankers, the *Navion Hispania*, during the third quarter of 2015. Teekay Offshore has entered into shipbuilding contracts to construct three Suezmax-size, DP2 shuttle tanker newbuildings with a South Korean shipyard for a fully built-up cost of approximately \$368 million, with an option to order one additional vessel should a fourth vessel be required. The three ordered vessels are expected to be delivered in the fourth quarter of 2017 through the first half of

2018.

In August 2014, Teekay Offshore acquired Logitel Offshore Holdings Ltd. (or *Logitel*), a Norway-based company focused on the high-end floating accommodation market and providing units for maintenance and safety. At the time of acquisition, Logitel was constructing three Units for Maintenance and Safety (or *UMS*) newbuildings, based on the Sevan Marine ASA (or *Sevan*) cylindrical hull design, at the COSCO (Nantong) Shipyard (or *COSCO*) in China for a fully built-up cost of approximately \$580 million, including \$30.0 million from our assumption of Logitel's obligations under a bond agreement from Sevan. Teekay Offshore currently hold options to order up to an additional four units. Prior to the acquisition, Logitel secured a three-year fixed-rate charter contract, plus extension options, with Petroleo Brasileiro SA (or *Petrobras*) in Brazil for the first UMS, the *Arendal Spirit*, which commenced its three-year time-charter contract during the second quarter of 2015. During the second quarter of 2015, Teekay Offshore exercised its options to defer delivery of Teekay Offshore's second UMS newbuilding by up to one year, and the delivery and all related construction work of Teekay Offshore's third UMS by 120 days. Teekay Offshore expects to secure charter contracts for these newbuildings prior to their respective deferred deliveries in the third quarter of 2016 and the second quarter of 2017. Teekay Offshore financed the *Arendal Spirit* through long-term debt financing and its existing liquidity and it intends to finance the remaining two UMS newbuilding payments through existing liquidity and proceeds from equity issuances and expect to secure long-term debt financing for the units prior to their scheduled deliveries.

In late-October 2014, Teekay Offshore, through its wholly-owned subsidiary ALP Maritime Services B.V. (or *ALP*), agreed to acquire six modern on-the-water long-distance towing and offshore installation vessels for approximately \$222 million. The vessels were built between 2006 and 2010 and are all equipped with dynamic positioning (or *DP*) capabilities. Teekay Offshore has taken delivery of all six vessels during 2015.

In April 2015, Teekay Offshore issued 5.0 million of its 8.50% Series B Cumulative Redeemable Preferred Units in a private placement for net proceeds of \$120.8 million. Teekay Offshore used the net proceeds for general partnership purposes, including the funding of newbuilding installments, capital conversion projects and vessel acquisitions.

In July 2015, Teekay Offshore issued 10.4 million of its 8.60% Series C Convertible Preferred Units in a private placement for proceeds of approximately \$250 million. Teekay Offshore used the proceeds from the private placement to partially finance the acquisition of the *Petrojarl Knarr* FPSO unit from us and the initial installments of the three shuttle tanker newbuildings for the east coast of Canada contract. Please read Item 1 Financial Statements: Note 19b Subsequent Events.

Table of Contents**Operating Results Teekay Offshore**

The following table compares Teekay Offshore's operating results and number of calendar-ship-days for its vessels for the three and six months ended June 30, 2015 and 2014, and compares its net revenues (which is a non-GAAP financial measure) for the three and six months ended June 30, 2015 and 2014, to revenues, the most directly comparable GAAP financial measure, for the same periods.

(in thousands of U.S. dollars, except calendar-ship-days)	Offshore Logistics		Offshore Production		Conventional Tankers		Teekay Offshore Total	
			Three Months Ended June 30,					
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues	161,267	148,818	86,246	83,984	8,245	8,600	255,758	241,402
Voyage expenses	(20,069)	(25,068)			(647)	(1,188)	(20,716)	(26,256)
Net revenues	141,198	123,750	86,246	83,984	7,598	7,412	235,042	215,146
Vessel operating expenses	(42,864)	(47,247)	(33,557)	(39,472)	(1,514)	(1,465)	(77,935)	(88,184)
Time-charter hire expense	(10,762)	(4,975)					(10,762)	(4,975)
Depreciation and amortization	(32,345)	(28,676)	(19,844)	(18,186)	(1,675)	(1,612)	(53,864)	(48,474)
General and administrative ⁽¹⁾	(8,684)	(9,753)	(5,011)	(7,989)	(507)	(312)	(14,202)	(18,054)
Asset impairments	(500)						(500)	
Restructuring (charges) reversals	(135)	821					(135)	821
Income from vessel operations	45,908	33,920	27,834	18,337	3,902	4,023	77,644	56,280
Equity income			9,720	2,388			9,720	2,388
Calendar-Ship-Days ⁽²⁾								
Shuttle Tankers	3,057	3,028					3,057	3,028
FSO Units	567	546					567	546
FPSO Units			455	364			455	364
Towage Units	402						402	
UMS Unit	91						91	
Conventional Tankers					364	364	364	364

(in thousands of U.S. dollars, except calendar-ship-days)	Offshore Logistics		Offshore Production		Conventional Tankers		Teekay Offshore Total	
			Six Months Ended June 30,					
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues	319,913	316,287	170,449	167,121	16,307	17,228	506,669	500,636
Voyage expenses	(42,018)	(56,797)			(1,215)	(2,913)	(43,233)	(59,710)

Net revenues	277,895	259,490	170,449	167,121	15,092	14,315	463,436	440,926
Vessel operating expenses	(84,291)	(93,526)	(64,790)	(79,863)	(2,888)	(2,925)	(151,969)	(176,314)
Time-charter hire expense	(17,745)	(16,387)					(17,745)	(16,387)
Depreciation and amortization	(64,180)	(57,650)	(39,939)	(36,089)	(3,349)	(3,223)	(107,468)	(96,962)
General and administrative ⁽¹⁾	(18,510)	(18,311)	(9,813)	(13,747)	(759)	(845)	(29,082)	(32,903)
Asset impairments	(15,996)						(15,996)	
Net gain on sale of vessels and equipment	1,643						1,643	
Restructuring (charges) reversals	(135)	262					(135)	262
Income from vessel operations	78,681	73,878	55,907	37,422	8,096	7,322	142,684	118,622
Equity income			13,811	6,091			13,811	6,091
Calendar-Ship-Days ⁽²⁾								
Shuttle Tankers	6,108	6,185					6,108	6,185
FSO Units	1,107	1,086					1,107	1,086
FPSO Units			905	724			905	724
Towage Units	509						509	
UMS unit	134						134	
Conventional Tankers					724	724	724	724

(1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to offshore logistics, offshore production and conventional tankers based on estimated use of corporate resources.

(2) Calendar-ship-days presented relate to owned and in-chartered consolidated vessels.

Table of Contents***Teekay Offshore Offshore Logistics***

Offshore Logistics consists of Teekay Offshore's shuttle tankers, FSO units, its *HiLoad DP* unit, towage vessels and one UMS. As at June 30, 2015, the shuttle tanker fleet consisted of 32 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters, one shuttle tanker in lay-up, and the *HiLoad DP* unit. Teekay Offshore is pursuing opportunities to employ the *HiLoad DP* unit. Of these 34 shuttle tankers, six were owned through 50%-owned subsidiaries, two through a 67%-owned subsidiary and four were chartered-in. The remaining vessels are owned 100% by Teekay Offshore. All of these shuttle tankers, with the exception of the *HiLoad DP* unit, provide transportation services to energy companies, primarily in the North Sea and Brazil. A shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Teekay Offshore's shuttle tankers also service the conventional spot tanker market from time to time. Teekay Offshore commenced the FSO conversion of the *Randgrid* during the second quarter of 2015 and the vessel has been included in Teekay Offshore's FSO segment since June 9, 2015. During the first quarter of 2015, Teekay Offshore sold the *Navion Svenita* shuttle tanker. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Euro and Brazilian Reals may result in significant decreases or increases, respectively, in our vessel operating expenses.

As at June 30, 2015, Teekay Offshore's FSO fleet consisted of seven units that operate under fixed-rate time charters or fixed-rate bareboat charters, and in which Teekay Offshore's ownership interests range from 67% to 100%. Teekay Offshore commenced the FSO conversion of the *Randgrid* during the second quarter of 2015 and the vessel has been included in Teekay Offshore's FSO segment since June 9, 2015. FSO units provide an on-site storage solution to oil field installations that have no oil storage facilities or that require supplemental storage. Teekay Offshore's revenues and vessel operating expenses for the FSO segment are affected by fluctuations in currency exchange rates, as a significant component of revenues are earned and vessel operating expenses are incurred in Norwegian Kroner and Australian Dollars for certain vessels. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner and Australian Dollar may result in significant decreases or increases, respectively, in our revenues and vessel operating expenses.

As at June 30, 2015, Teekay Offshore's towage vessel fleet consisted of five long-distance towing and offshore installation vessels and four ultra-long distance towing and offshore installation vessel newbuildings, which are scheduled to deliver during 2016, all of which Teekay Offshore owns 100%. In July 2015, Teekay Offshore took delivery of another on-the-water long-distance towing and offshore installation vessel. Long-distance towing and offshore installation vessels are used for the towage, station-keeping, installation and decommissioning of large floating objects such as exploration, production and storage units, including floating production, storage and offloading (or *FPSO*) units, floating liquefied natural gas (or *FLNG*) units and floating drill rigs.

As at June 30, 2015, Teekay Offshore's UMS fleet consisted of one operational unit, the *Arendal Spirit*, and two newbuildings. During the second quarter of 2015, Teekay Offshore exercised its options to defer the delivery of its second UMS newbuilding by up to one year, and the delivery and all related construction work of Teekay Offshore's third UMS by 120 days. These two newbuildings are scheduled to deliver in the third quarter of 2016 and the second quarter of 2017. Teekay Offshore owns 100% of all three units. The UMS fleet is used primarily for offshore accommodation, storage and support for maintenance and modification projects on existing offshore installations, or during the installation and decommissioning of large floating exploration, production and storage units, including *FPSO* units, *FLNG* units and floating drill rigs. Teekay Offshore's UMS fleet is available for world-wide operations, excluding operations within the Norwegian Continental Shelf, and includes DP3 keeping systems that are capable of operating in deep water and harsh weather.

The average size of Teekay Offshore's owned shuttle tanker fleet decreased for the three and six months ended June 30, 2015 compared to the same periods last year, primarily due to the sales of the *Navion Norvegia* and the *Navion Svenita* in October 2014 and March 2015, respectively, and the commencement of the FSO conversion of the *Randgrid* in June 2015, partially offset by the delivery of the *HiLoad DP* unit in April 2014. The average size of Teekay Offshore's chartered-in shuttle tanker fleet increased for the three and six months ended June 30, 2015 compared to the same periods last year primarily due to the in-chartering of three shuttle tankers, the *Karen Knutsen*, the *Heather Knutsen*, and the *Mattea* for the east coast of Canada contract, which commenced in June 2015, partially offset by redeliveries to their owners of the *Grena Knutsen* in June 2015 and the *Karen Knutsen* in January 2014, and decreased spot in-chartering of shuttle tankers.

The average number of Teekay Offshore's towing and offshore installation vessels increased for the three and six months ended June 30, 2015 compared to the same periods last year, due to the delivery of the *ALP Guard* and the *ALP Winger* during February 2015, the delivery of the *ALP Centre* during March 2015, the delivery of the *ALP Ippon* during April 2015, and the delivery of the *ALP Ace* during May 2015.

Income from vessel operations for Teekay Offshore's Offshore Logistics business increased to \$45.9 million and \$78.7 million for the three and six months ended June 30, 2015 compared to \$33.9 million and \$73.9 million for the same periods last year, primarily as a result of:

increases of \$3.7 million and \$7.6 million, respectively, for the three and six months ended June 30, 2015, due to decreases in vessel operating expenses for Teekay Offshore's shuttle tankers due to the strengthening of the U.S. Dollar against the Norwegian Kroner, Euro and Brazilian Real;

increases of \$4.9 million and \$7.5 million, respectively, for the three and six months ended June 30, 2015, due to the delivery of the five towing and offshore installation vessels during the first and second quarters of 2015;

increases of \$0.4 million and \$5.7 million, respectively, for the three and six months ended June 30, 2015, due to decreased spot in-chartering of shuttle tankers and due to the redelivery by Teekay Offshore to its owner of the in-chartered *Karen Knutsen* in January 2014;

increases of \$4.0 million and \$4.3 million, respectively, for the three and six months ended June 30, 2015, due to an increase in rates and more opportunities to trade excess shuttle tanker capacity in the conventional tanker spot market;

increases of \$2.2 million and \$3.6 million, respectively, for the three and six months ended June 30, 2015, due to the timing of repairs and maintenance expenses compared to the same periods last year and a decrease in crew costs compared to the same periods last year, due to a change in the crew composition from the reflagging of one vessel in early 2014 and lower crew levels due to a decrease in the shuttle tanker fleet size, partially offset by an increase in vessel operating expenses due to the timing of fleet overhead costs;

Table of Contents

increases of \$0.8 million and \$2.7 million, respectively, for the three and six months ended June 30, 2015, excluding general and administrative expenses, due to the sale of the *Navion Norvegia* in October 2014;

increases of \$1.5 million and \$1.9 million, respectively, for the three and six months ended June 30, 2015, primarily due to the drydocking of the *Dampier Spirit* during the second quarter of 2014;

increases of \$0.8 million and \$1.5 million, respectively, for the three and six months ended June 30, 2015, due to the commencement of operations of the *Suksan Salamander* in the third quarter of 2014; and

increases of \$1.4 million and \$0.9 million, respectively, for the three and six months ended June 30, 2015, primarily due to the commencement of the charter contract of the *Arendal Spirit* UMS in June 2015; partially offset by

decreases of \$0.5 million and \$16.0 million, respectively, for the three and six months ended June 30, 2015, from asset impairments mainly on two older shuttle tankers, whose carrying values were written down to the vessels' estimated fair values resulting from the expected sale of one vessel and a change in the operating plan for the other vessel;

decreases of \$0.5 million and \$4.1 million, respectively, for the three and six months ended June 30, 2015, due to the redelivery of two vessels to Teekay Offshore, in February 2014 and April 2015, as they completed their time-charter-out agreements, partially offset by an increase in revenues in Teekay Offshore's time-chartered-out fleet from an increase in rates as provided in certain contracts and an increase in revenues in Teekay Offshore's contract of affreightment fleet due to higher average rates and higher fleet utilization;

decreases of \$1.7 million and \$1.9 million, respectively, for the three and six months ended June 30, 2015, primarily due to the drydocking of the *Aberdeen* during the second quarter of 2014, and the drydocking and offhire of the *Sallie Knutsen* during the first and second quarters of 2014;

a decrease of \$1.8 million for the six months ended June 30, 2015, excluding general and administrative expenses, relating to the commencement of operating expenses and depreciation expense of the *HiLoad DP* unit from April 2014;

decreases of \$0.7 million and \$1.7 million, respectively, for the three and six months ended June 30, 2015, in depreciation due to the dry docking of five shuttle tankers during mid-2014;

decreases of \$2.0 million and \$1.6 million, respectively, for the three and six months ended June 30, 2015, relating to fewer opportunities to trade excess shuttle tanker capacity in short-term offshore projects; and

decreases of \$2.6 million and \$1.1 million, respectively, for the three and six months ended June 30, 2015, due to the sale of a 1997-built shuttle tanker, the *Navion Svenita* in March 2015, partially offset by the gain on sale to a third party during the six months ended June 30, 2015.

Teekay Offshore Offshore Production

Offshore Production consists of Teekay Offshore's FPSO units. As at June 30, 2015, the FPSO fleet consisted of the *Petrojarl Varg*, the *Cidade de Rio das Ostras* (or *Rio das Ostras*), the *Piranema Spirit*, the *Voyageur Spirit* and the *Petrojarl I* FPSO units, all of which Teekay Offshore owns 100%, and the *Itajai* and the *Libra* FPSO units, of which Teekay Offshore owns 50% each. In October 2014, Teekay Offshore sold a 1995-built shuttle tanker, the *Navion Norvegia*, to its 50/50 joint venture with Odebrecht and the vessel currently is undergoing conversion into an FPSO unit for the *Libra* field located in the Santos Basin offshore Brazil. Teekay Offshore acquired the *Petrojarl I* FPSO unit from us in December 2014. The unit is currently undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard in the Netherlands. Teekay Offshore acquired the *Petrojarl Knarr* FPSO unit from us in July 2015.

Teekay Offshore uses the FPSO units to provide production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate FPSO contracts, some of which also include certain incentive compensation or penalties based on the level of oil production and other operational measures. Historically, the utilization of FPSO units and other vessels in the North Sea, where the *Petrojarl Varg*, *Voyageur Spirit* and *Petrojarl Knarr* operate, is higher in the winter months as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to Teekay Offshore's vessels and the offshore oil platforms, which generally reduces oil production. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Brazilian Real, and British Pound may result in significant decreases or increases, respectively, in Teekay Offshore's revenues and vessel operating expenses.

The average number of Teekay Offshore's FPSO units increased for the three and six months ended June 30, 2015 compared to the same periods last year, due to the acquisition of the *Petrojarl I* on December 15, 2014. No earnings are expected from the *Petrojarl I* until its upgrades are completed, which is scheduled for mid- 2016. The unit is scheduled to commence operations in the third quarter of 2016 under a five-year fixed-rate charter contract with Queiroz Galvão Exploração e Produção SA (or *QGEP*).

Table of Contents

Income from vessel operations for Teekay Offshore's Offshore Production business increased to \$27.8 million and \$55.9 million for the three and six months ended June 30, 2015, compared to \$18.3 million and \$37.4 million for the same periods last year, primarily as a result of:

increases of \$2.7 million and \$7.4 million, respectively, for the three and six months ended June 30, 2015, excluding general and administrative expenses, for the *Voyageur Spirit* FPSO unit, mainly from an increase in daily hire rates primarily due to the charterer's final acceptance of the charter contract in February 2014, a production penalty accrual which reduced income during the second quarter of 2014 and due to external consulting fees incurred during the first quarter of 2014 to achieve final acceptance for the unit;

increases of \$2.7 million and \$5.5 million, respectively, for the three and six months ended June 30, 2015, excluding general and administrative expenses, for the *Rio das Ostras* FPSO unit in accordance with the annual contractual escalation recorded in the fourth quarter of 2014 and the unit earning only 95% standby rate while it was being relocated to a new oil field during the first and second quarters of 2014 compared to only during the second quarter of 2015, and a decrease in operating expenses for the unit due to the strengthening of the U.S. Dollar against the Brazilian Real and Norwegian Kroner, and lower repairs and maintenance expenses;

increases of \$3.0 million and \$3.9 million, respectively, for the three and six months ended June 30, 2015, due to decreased management fees charged by us relating to Teekay Offshore's FPSO fleet primarily due to additional focus required for obtaining final charter contract acceptance for the *Voyageur Spirit* in the first quarter of 2014;

increases of \$1.2 million and \$1.9 million, respectively, for the three and six months ended June 30, 2015, due to lower ship management costs related to operating the FPSO units; and

increases of \$1.0 million and \$1.9 million, respectively, for the three and six months ended June 30, 2015, excluding general and administrative expenses, for the *Piranema Spirit* FPSO unit mainly due to the strengthening of the U.S. Dollar against the Brazilian Real and Norwegian Kroner resulting in lower crew costs and the timing of repairs and maintenance costs compared to the same period last year;

partially offset by

decreases of \$1.5 million and \$3.2 million, respectively, for the three and six months ended June 30, 2015, from depreciation expense for the *Petrojarl I* FPSO unit, which Teekay Offshore acquired from us in December 2014.

Equity income increased to \$9.7 million and \$13.8 million for the three and six months ended June 30, 2015, compared to \$2.4 million and \$6.1 million for the same periods last year. The increases in equity income were primarily due to an increase in unrealized gains on derivative instruments included in Teekay Offshore's investment in the *Itajai* and *Libra* FPSO units and a credit received during the six months ended June 30, 2015 relating to unused maintenance days in the *Itajai* FPSO joint venture.

Teekay Offshore Conventional Tankers

As at June 30, 2015, Teekay Offshore owned 100% interests in two Aframax conventional crude oil tankers, which operate under fixed-rate time charters to Teekay, and two vessels (that have additional equipment for lightering) which operated under fixed-rate bareboat charters to a 100% owned subsidiary of Teekay. Income from vessel operations was \$3.9 million and \$8.1 million for the three and six months ended June 30, 2015 compared to \$4.0 million and \$7.3 million for the same periods last year. The increase for the six months ended June 30, 2015 was primarily due to a higher amount of reimbursed bunkers, compared to the same period in the prior year.

Teekay LNG

Recent Developments in Teekay LNG

In June 2015, Teekay LNG ordered two LNG carrier newbuildings with Hyundai Samho Heavy Industries Co., Ltd. (or *HHI*) with an option to order one additional vessel. In total, Teekay LNG has 11 wholly-owned LNG carrier newbuildings on order which are scheduled for delivery between early 2016 and early 2019. Teekay LNG has entered into time-charter contracts for all but three of the 11 ordered newbuildings, which includes a charter contract with BP Shipping Limited (or *BP*) entered into in June 2015, at fixed rates for a period of 13 years with an option for BP to order one additional vessel which expires in September 2015. In addition to these 11 wholly-owned LNG carrier newbuildings, Teekay LNG has a 20% interest in two LNG carrier newbuildings and a 30% interest in another two LNG carrier newbuildings (or the *BG Joint Venture*) scheduled for delivery between 2017 and 2019, and six LNG carrier newbuildings relating to Teekay LNG's 50% owned joint venture with China LNG Shipping (Holdings) Limited (or the *Yamal LNG Joint Venture*) scheduled for delivery between 2018 and 2020.

In May 2015, Teekay LNG issued in the Norwegian bond market Norwegian Kroner (or *NOK*) 1,000 million in senior unsecured bonds that mature in May 2020. The aggregate principal amount of the bonds was equivalent to \$134.0 million and all interest and principal payments have been swapped into U.S. Dollars at a fixed interest rate of 5.92%. Teekay LNG used the net proceeds from the bond offering for general partnership purposes, including the funding of newbuilding installments. The bonds are listed on the Oslo Stock Exchange.

In January 2015, the *Magellan Spirit*, one of the six vessels (or the *MALT LNG Carriers*) in Teekay LNG's joint venture with Marubeni Corporation (or the *Teekay LNG-Marubeni Joint Venture*) in which Teekay LNG has a 52% ownership interest, had a grounding incident. The vessel was subsequently refloated and returned to service. Teekay LNG expects the cost of such refloating and related costs associated with the grounding to be covered by insurance, less an applicable deductible. The charterer has claimed that the vessel was off-hire for more than 30 consecutive days during the first quarter of 2015, which in the view of the charterer, permitted the charterer to terminate the charter contract, which it did in late-March 2015. The Teekay LNG-Marubeni Joint Venture has disputed both the charterer's aggregate off-hire claims as well as the charterer's ability to terminate the charter contract, which originally would have expired in September 2016. The Teekay LNG-Marubeni Joint Venture has obtained legal assistance in resolving this dispute. However, if the charterer's claim to terminate the charter contract is upheld, Teekay LNG's 52% portion of the potential lost revenue under the time charter contract from March 28, 2015 to September 19, 2016, would be approximately \$27 million, less any amounts Teekay LNG may receive from re-chartering this vessel during this time. The impact in future periods from this incident will depend upon Teekay LNG's ability to re-charter the vessel and the resolution of this dispute. The charter contract of another MALT LNG Carrier, the *Methane Spirit*, expired in March 2015 as scheduled. The Teekay LNG-Marubeni Joint Venture has secured some short-term employment during the second quarter of 2015 and, commencing October 2015, secured a charter contract for a period of six months plus two extension options ranging from two to three months, for both of the *Magellan Spirit* and the *Methane Spirit* at significantly lower charter rates than their previous contracts. The Teekay LNG-Marubeni Joint Venture continues to seek medium-term to long-term employment for both vessels.

Table of Contents

The Teekay LNG-Marubeni Joint Venture is a party to a loan facility for four of its LNG carriers, including the *Magellan Spirit* that had the grounding incident in January 2015. Teekay LNG has guaranteed its 52% share of the Teekay LNG-Marubeni Joint Venture's obligations under this facility. The loan facility contains mandatory prepayment provisions upon early termination of a charter and requires the borrower to maintain a specific debt service coverage ratio. In June 2015, the lenders waived the mandatory prepayment provision in relation to the *Magellan Spirit* and the debt service coverage ratio covenant for the loan facility. Both waivers are for the remaining term of the facility. In return, the Teekay LNG-Marubeni Joint Venture is required to fund a restricted cash account, which is collateral for the loan facility, with \$7.5 million and prepay \$30.0 million of the loan facility, both on or before September 30, 2015. These amounts will be funded by Teekay LNG and Marubeni Corporation based on their respective ownership percentages.

Operating Results Teekay LNG

The following table compares Teekay LNG's operating results and number of calendar-ship-days for its vessels for the three months ended June 30, 2015 and 2014, and compares its net revenues (which is a non-GAAP financial measure) for the first quarters of 2015 and 2014 to revenues, the most directly comparable GAAP financial measure, for the same periods.

(in thousands of U.S. dollars, except calendar-ship-days)	Liquefied Gas Carriers		Conventional Tankers		Teekay LNG Total	
	Three Months Ended June 30,					
	2015	2014	2015	2014	2015	2014
Revenues	77,466	77,602	21,142	23,721	98,608	101,323
Voyage expenses		(705)	(373)	(462)	(373)	(1,167)
Net revenues	77,466	76,897	20,769	23,259	98,235	100,156
Vessel operating expenses	(16,127)	(14,746)	(7,975)	(9,574)	(24,102)	(24,320)
Depreciation and amortization	(18,004)	(17,888)	(5,205)	(5,642)	(23,209)	(23,530)
General and administrative ⁽¹⁾	(5,514)	(4,460)	(1,554)	(1,794)	(7,068)	(6,254)
Income from vessel operations	37,821	39,803	6,035	6,249	43,856	46,052
Equity income	29,002	32,924			29,002	32,924
Calendar-Ship-Days ⁽²⁾						
Liquefied Gas Carriers	1,729	1,638			1,729	1,638
Conventional Tankers			728	819	728	819

(in thousands of U.S. dollars, except calendar-ship-days)	Liquefied Gas Carriers		Conventional Tankers		Teekay LNG Total	
	Six Months Ended June 30,					
	2015	2014	2015	2014	2015	2014
Revenues	153,400	152,566	42,534	50,247	195,934	202,813

Edgar Filing: TEEKAY CORP - Form 6-K

Voyage expenses		(1,528)	(691)	(972)	(691)	(2,500)
Net revenues	153,400	151,038	41,843	49,275	195,243	200,313
Vessel operating expenses	(30,433)	(29,460)	(15,303)	(19,116)	(45,736)	(48,576)
Depreciation and amortization	(36,310)	(36,001)	(10,468)	(11,639)	(46,778)	(47,640)
General and administrative ⁽¹⁾	(10,839)	(9,208)	(2,937)	(3,454)	(13,776)	(12,662)
Income from vessel operations	75,818	76,369	13,135	15,066	88,953	91,435
Equity income	47,060	53,297			47,060	53,297
Calendar-Ship-Days ⁽²⁾						
Liquefied Gas Carriers	3,439	3,258			3,439	3,258
Conventional Tankers			1,448	1,688	1,448	1,688

(1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to the liquefied gas carriers and conventional tankers based on estimated use of corporate resources.

(2) Calendar-ship-days presented relate to consolidated vessels.

Teekay LNG Liquefied Gas Carriers

As at June 30, 2015, Teekay LNG's liquefied gas fleet included 50 LNG carriers and 30 liquefied petroleum gas (or LPG)/Multigas carriers, including newbuildings, in which its interests ranged from 20% to 100%. The number of calendar-ship-days for Teekay LNG's liquefied gas carriers consolidated in its financial results increased to 3,439 days for the six months ended June 30, 2015 from 3,258 days for the same period in 2014, as a result of the acquisition of the *Norgas Napa* from I.M. Skaugen SE in November 2014. During the six months ended June 30, 2015, none of Teekay LNG's consolidated vessels in this segment were off-hire compared to two vessels being off-hire for 46 days in the same period last year.

Table of Contents

Income from vessel operations for Teekay LNG's liquefied gas carriers decreased to \$37.8 million and \$75.8 million for the three and six months ended June 30, 2015 compared to \$39.8 million and \$76.4 million for the same periods last year, primarily as a result of:

decreases of \$1.1 million and \$1.6 million, respectively, for the three and six months ended June 30, 2015, from an increase in general and administrative expenses, primarily due to a greater amount of corporate services provided to Teekay LNG by us in 2015 to support its growth; and

decreases of \$2.6 million and \$0.9 million, respectively, for the three and six months ended June 30, 2015, due to the effect on Teekay LNG's Euro-denominated net revenues from the depreciation of the Euro against the U.S. Dollar, partially offset the scheduled dry docking and unscheduled off-hire in the first quarter of 2014 for two of Teekay LNG's LNG carriers compared to the same periods in 2014; partially offset by

increases of \$0.6 million and \$1.2 million, respectively, for the three and six months ended June 30, 2015, as a result of the acquisition and delivery of the *Norgas Napa* in November 2014; and

an increase of \$1.0 million for the three and six months ended June 30, 2015, in net voyage revenues relating to a charter rate flow-through adjustment for the *Arctic Spirit* and *Polar Spirit* in accordance with the charter contract with us.

Equity income related to Teekay LNG's liquefied gas carriers decreased to \$29.0 million and \$47.1 million for the three and six months ended June 30, 2015 compared to \$32.9 million and \$53.3 million for the same periods last year, as set forth in the table below:

(in thousands of U.S. Dollars)

	Three Months Ended						Total Equity Income
	Angola LNG Carriers	Exmar LNG Carriers	Exmar LPG Carriers	MALT LNG Carriers	RasGas 3 LNG Carriers	Other	
Three months ended June 30, 2015	12,149	2,291	9,563	18	5,028	(47)	29,002
Three months ended June 30, 2014	(392)	2,211	18,740	7,120	5,245		32,924
Difference	12,541	80	(9,177)	(7,102)	(217)	(47)	(3,922)

(in thousands of U.S. Dollars)

	Six Months Ended						Total Equity Income
	Angola LNG Carriers	Exmar LNG Carriers	Exmar LPG Carriers	MALT LNG Carriers	RasGas 3 LNG Carriers	Other	
Six months ended June 30, 2015	12,098	4,284	16,538	3,897	10,383	(140)	47,060
Six months ended June 30, 2014	(1,169)	4,931	23,423	15,890	10,222		53,297

Difference	13,267	(647)	(6,885)	(11,993)	161	(140)	(6,237)
------------	--------	-------	---------	----------	-----	-------	---------

The decreases in equity income of \$3.9 million and \$6.2 million, respectively, for the three and six months ended June 30, 2015, from the same periods last year, were primarily a result of:

decreases of \$7.1 million and \$12.0 million, respectively, for the three and six months ended June 30, 2015, in Teekay LNG's 52% investment in the MALT LNG Carriers primarily due to fewer revenue days compared to the same periods in 2014 as a result of the disputed termination of the charter contract for the *Magellan Spirit* in March 2015, the scheduled expiration of the charter contract for the *Methane Spirit* in March 2015 and the unscheduled off-hire days relating to the *Woodside Donaldson* to repair a damaged propulsion motor in January 2015;

decreases of \$9.2 million and \$6.9 million, respectively, for the three and six months ended June 30, 2015, in Teekay LNG's 50% ownership interest in Exmar LPG BVBA were primarily due to the gain on the sales of the *Eeklo* and *Flanders Harmony*, which were sold during the second quarter of 2014, partially offset by higher contracted charter rates from four LPG newbuildings delivered during 2014 and early 2015, net of four disposed LPG carriers during 2014, and a loss on the sale of the *Temse* in the first quarter of 2014; and

a decrease of \$0.6 million for the six months ended June 30, 2015 in Teekay LNG's 50% ownership interest in two Exmar LNG carriers was due to higher interest expense as a result of the completion of the joint venture's debt refinancing in February 2015;

partially offset by:

increases of \$12.5 million and \$13.3 million, respectively, for the three and six months ended June 30, 2015, in Teekay LNG's 33% investment in the four Angola LNG Carriers primarily due to unrealized gains on derivative instruments in 2015 as a result of long-term LIBOR benchmark interest rates increasing for interest rate swaps compared to unrealized losses on derivative instruments in the same period last year, and an increase in voyage revenues upon amending the charter contract in the second quarter of 2015 to allow for dry docking and operating costs to pass-through to the charterer, retroactive to the beginning of the charter contract.

Table of Contents

Teekay LNG Conventional Tankers

As at June 30, 2015, Teekay LNG's conventional tanker fleet included seven Suezmax-class double-hulled conventional crude oil tankers and one Handymax product tanker, six of which it owns and two of which it leases under capital leases. All of Teekay LNG's conventional tankers operate under fixed-rate charters. The number of calendar-ship-days for Teekay LNG's conventional tankers decreased to 1,448 days for the six months ended June 30, 2015 from 1,688 days for the same period in 2014, as a result of the sale of the *Algeciras Spirit* and the *Huelva Spirit* in February 2014 and August 2014, respectively. During the six months ended June 30, 2015, none of Teekay LNG's vessels in this segment were off-hire for scheduled dry dockings, compared to two of Teekay LNG's vessels being off-hire for a total of 51 days for dry dockings during the same period in 2014.

Income from vessel operations for Teekay LNG's conventional tankers decreased to \$6.0 million and \$13.1 million, respectively, for the three and six months ended June 30, 2015, compared to \$6.2 million and \$15.1 million for the same periods last years, primarily as a result of:

decreases of \$1.0 million and \$2.6 million, respectively, for the three and six months ended June 30, 2015, excluding general and administrative expenses, due to the sales of the *Algeciras Spirit* and *Huelva Spirit* in February 2014 and August 2014, respectively; and

a decrease of \$0.8 million for the six months ended June 30, 2015, excluding general and administrative expenses, due to higher revenues recognized in the same period last year by the *Bermuda Spirit* and *Hamilton Spirit* relating to an agreement between Teekay LNG and the charterer that ended in October 2014, which resulted in Teekay LNG recognizing more revenues in 2014 when Suezmax tanker spot rates exceeded a certain amount, partially offset by the *Bermuda Spirit* being off-hire for 27 days in the first quarter of 2014 and the *Hamilton Spirit* being off-hire for 24 days in the second quarter of 2014 for scheduled dry dockings;

partially offset by:

increases of \$0.7 million and \$1.1 million for the three and six months ended June 30, 2015, respectively, as a result of lower crew wage costs due to favorable foreign exchange impacts on crew wages denominated in foreign currencies.

Teekay Tankers

Recent Developments in Teekay Tankers

In August 2015, Teekay Tankers agreed to acquire 12 modern Suezmax tankers from Principal Maritime Tankers Corporation (or *Principal Maritime*) for an aggregate purchase price of \$662.0 million, consisting of \$612.0 million in cash and approximately 7.2 million shares of its Class A common stock. The vessels are scheduled to deliver by the end of October 2015 and are expected to trade in the spot tanker market upon delivery or soon thereafter. To finance the acquisition, in August 2015, Teekay Tankers has secured commitments for a \$397.2 million loan facility maturing January 29, 2016, issued approximately 13.6 million shares of Class A common stock for net proceeds of \$90.6 million, of which approximately 4.5 million shares were issued to us, and the remainder of purchase price is expected to be financed with existing liquidity. Please read Item 1 Financial Statements: Note 19c Subsequent Events.

In July 2015, Teekay Tankers acquired the ship-to-ship transfer business (or *SPT*) from us and a Norway-based marine transportation company, I.M. Skaugen SE, for a purchase price of \$45.5 million. SPT provides a full suite of ship-to-ship (or *STS*) transfer services in the oil, gas and dry bulk industries. In addition to full service lightering and lightering support, it also provides consultancy, terminal management and project development services. SPT owns a fleet of six STS support vessels and has one chartered-in Aframax tanker. In connection with the SPT acquisition, on July 31, 2015, Teekay Tankers issued approximately 6.5 million shares of Class B common stock to Teekay Holdings Ltd., a wholly-owned subsidiary of ours, for net proceeds of \$45.5 million. These shares of Class B common stock were priced at \$6.99 per share. Please read Item 1 Financial Statements: Note 19d Subsequent Events.

During the six months ended June 30, 2015, Teekay Tankers acquired four modern LR2 product tankers and one Aframax tanker for an aggregate price of \$230.3 million. Three of the vessels were delivered in February 2015 while the remaining two vessels were delivered in March 2015. All four LR2 product tankers are trading in the Taurus LR2 pool and the Aframax tanker is trading in the Aframax RSA, after receiving the required vetting approvals in June 2015.

Operating Results Teekay Tankers

The following table compares Teekay Tankers' operating results and number of calendar-ship-days for its vessels for the three and six months ended June 30, 2015 and 2014, and compares its net revenues (which is a non-GAAP financial measure) for the three and six months ended June 30, 2015 and 2014 to revenues, the most directly comparable GAAP financial measure, for the same periods.

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	107,594	44,433	211,472	106,192
Voyage expenses	(3,545)	(3,612)	(7,379)	(5,051)
Net revenues	104,049	40,821	204,093	101,141
Vessel operating expenses	(26,201)	(23,585)	(48,642)	(46,379)
Time-charter hire expense	(16,793)	(1,112)	(31,796)	(2,164)
Depreciation and amortization	(15,227)	(12,425)	(28,899)	(24,927)
General and administrative	(3,039)	(3,163)	(6,339)	(6,355)
Gain on sale of vessels		9,955		9,955
Restructuring reversals (charges)	879		(4,445)	
Income from vessel operations	43,668	10,491	83,972	31,271
Equity income	3,587	15	6,169	2,609
Calendar-Ship-Days ⁽¹⁾				
Conventional Tankers	3,834	2,625	7,334	5,165

(1) Calendar-ship-days presented relate to owned and in-chartered consolidated vessels.

Table of Contents

Tanker Market and TCE Rates

Crude tanker spot rates have maintained strength from the first quarter of 2015 into the second quarter of 2015, achieving the highest second-quarter levels in seven years. The strength of the market was primarily due to ongoing low global oil prices, record high crude oil supply from the Organization of the Petroleum Exporting Countries (or *OPEC*) and further crude oil stockpiling. In general, tanker rates continue to be positively impacted by the following factors:

Positive fleet fundamentals, as fleet growth remains below historical averages;

Ongoing commercial and strategic stockpiling due to low oil prices in both the OECD and non-OECD drove tanker demand;

High refinery throughput, as refiners took advantage of positive margins due to low global oil prices; and

Increased earnings as bunker fuel prices remain low due to low global oil prices.

At the beginning of the third quarter of 2015, crude tanker rates have remained counter-seasonally strong due to high refining margins driven by on-going low oil prices, record-high OPEC crude oil production, vessel delays as onshore storage tanks remain at or near capacity, and intermittent weather delays in certain regions, including the U.S. Gulf. While crude tanker rates could potentially soften slightly into the end of the third quarter of 2015, as refineries enter scheduled maintenance, they are expected to remain strong relative to historical third quarter average rates.

LR2 product tanker rates in the second quarter of 2015 were also strong, achieving the highest average levels for a second quarter in seven years. LR2 rates were supported by high refinery utilization, increased long-haul trade out of new Middle Eastern refineries, increased seasonal gasoline and diesel demand, and low oil prices which has reduced naphtha prices in relation to LPG. The latter factor has led some petrochemical plants to use naphtha rather than LPG for feedstock. LR2 product tanker rates continue to be supported into the third quarter of 2015 by increased volumes from new refineries in the Middle East and India, as well as surging product exports out of China, which are resulting in tighter vessel supply.

The global tanker fleet grew by 8.4 million deadweight tonnes (or *mdwt*), or 1.7%, in the first half of 2015. The global Suezmax fleet grew by six vessels, or 1.3%, while the uncoated Aframax fleet grew by only one vessel, or 0.2%. During the same period, the LR2 fleet grew by 17 vessels, or 6.5%. Looking ahead, the global tanker fleet is forecast to grow by a total of 2.0 to 2.5% in 2015, with growth weighted towards the product tanker sectors. The uncoated Aframax sector is expected to experience another year of negative fleet growth, while the Suezmax fleet is projected to grow by only 1.0% in 2015.

In July 2015, the International Monetary Fund (or *IMF*) reduced its outlook for 2015 global economic growth to 3.3%, down 0.2% from its April 2015 forecast. This represents only a slight decrease from global economic growth of 3.4% in 2014. Based on an average of forecasts from the International Energy Agency, the Energy Information Administration and OPEC, global oil demand is forecast to grow by 1.3 million barrels per day (or *mb/d*) in 2015, or 0.5 mb/d higher than demand growth in 2014.

The outlook for crude spot tanker rates is expected to remain positive in 2015 and into 2016 based on a combination of low fleet growth and an increase in long-haul tanker demand as more crude oil moves from the Atlantic to the Pacific basin. Low oil prices are expected to continue to provide support for tanker demand into the second half of 2015 and into 2016.

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
	Net Revenues ⁽¹⁾⁽²⁾ (in thousands)	Revenue Days	Average TCE per Revenue Day	Net Revenues ⁽³⁾ (in thousands)	Revenue Days	Average TCE per Revenue Day
Voyage-charter contracts						
Suezmax	\$ 34,710	895	\$ 38,767	\$ 11,697	727	\$ 16,089
Voyage-charter contracts						
Aframax	\$ 33,445	1,150	\$ 29,072	\$ 4,108	266	\$ 15,462
Voyage-charter contracts LR2	\$ 24,936	860	\$ 28,996	\$ 3,642	273	\$ 13,340
Voyage-charter contracts MR	\$ 5,543	251	\$ 22,040	\$ 2,121	182	\$ 11,656
Voyage-charter contracts VLCC				\$ 855	76	\$ 11,280
Time-charter out contracts						
Suezmax				\$ 3,670	182	\$ 20,166
Time-charter out contracts						
Aframax	\$ 10,201	544	\$ 18,758	\$ 13,415	761	\$ 17,628
Time-charter out contracts MR				\$ 3,296	91	\$ 36,219
Total	\$ 108,835	3,700	\$ 29,415	\$ 42,804	2,558	\$ 16,737

Table of Contents

- (1) Excludes a total of \$2.9 million in pool management fees and commissions payable for commercial management for Teekay Tankers' vessels and \$1.0 million in off-hire bunker and other expenses.
- (2) Excludes \$0.9 million of crew redundancy costs adjustment from one of Teekay Tankers' customers for the three months ended June 30, 2015.
- (3) Excludes a total of \$1.4 million in pool management fees and commissions payable for commercial management for Teekay Tankers' vessels and \$0.6 million in off-hire bunker and other expenses.

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
	Net Revenues ⁽¹⁾⁽²⁾ (in thousands)	Revenue Days	Average TCE per Revenue Day	Net Revenues ⁽²⁾⁽³⁾ (in thousands)	Revenue Days	Average TCE per Revenue Day
Voyage-charter contracts						
Suezmax	\$ 69,937	1,788	\$ 39,099	\$ 30,924	1,412	\$ 21,905
Voyage-charter contracts						
Aframax	\$ 65,018	2,210	\$ 29,418	\$ 10,123	532	\$ 19,030
Voyage-charter contracts LR2	\$ 42,119	1,550	\$ 27,172	\$ 7,396	543	\$ 13,621
Voyage-charter contracts MR	\$ 9,295	451	\$ 20,583	\$ 4,534	362	\$ 12,525
Voyage-charter contracts VLCC				\$ 1,323	96	\$ 13,805
Time-charter out contracts						
Suezmax				\$ 7,326	362	\$ 20,237
Time-charter out contracts						
Aframax	\$ 18,455	1,013	\$ 18,228	\$ 27,702	1,573	\$ 17,606
Time-charter out contracts MR	\$ 1,970	50	\$ 39,036	\$ 6,362	181	\$ 35,150
Total	\$ 206,794	7,062	\$ 29,281	\$ 95,690	5,061	\$ 18,908

- (1) Excludes a total of \$5.6 million in pool management fees and commissions payable for commercial management for Teekay Tankers' vessels and \$1.5 million in off-hire bunker and other expenses.
- (2) Excludes \$4.4 million of crew redundancy costs recovery from one of Teekay Tankers' customers for the six months ended June 30, 2015 and excludes interest income from investment in term loans of \$9.1 million for the six months ended June 30, 2014.
- (3) Excludes a total of \$2.9 million in pool management fees and commissions payable for commercial management of Teekay Tankers' vessels and \$0.8 million in off-hire bunker and other expenses.

Teekay Tankers' Conventional Tankers

As at June 30, 2015, Teekay Tankers owned 32 double-hulled conventional oil tankers, time-chartered in eight Aframax tankers and three LR2 product tankers from third parties and owned a 50% interest in one VLCC.

Income from vessel operations increased to \$43.7 million and \$84.0 million for the three and six months ended June 30, 2015 compared to \$10.5 million and \$31.3 million for the same periods in the prior year, primarily as a result of:

increases of \$26.3 million and \$39.9 million for the three and six months ended June 30, 2015, respectively, resulting from higher revenue due to higher average realized time charter equivalent (or *TCE*) rates earned by Suezmax, Aframax, LR2 and MR tankers for 2015;

net increases of \$16.3 million and \$25.8 million for the three and six months ended June 30, 2015, respectively, primarily due to the addition of the one Aframax tanker and four LR2 product tankers that Teekay Tankers acquired during the first quarter of 2015 and the addition of six Aframax tankers and three LR2 product tankers that Teekay Tankers in-chartered at various times since the second half of 2014, partially offset by the addition of two VLCCs in March 2014 that were subsequently sold to Tanker Investments Ltd. (or *TIL*) in May 2014;

net increases of \$3.9 million and \$10.2 million for the three and six months ended June 30, 2015, respectively, due to various vessels changing employment between fixed-rate charters and spot voyage charters;

increases of \$1.8 million and \$2.8 million for the three and six months ended June 30, 2015, respectively, due to lower crew costs resulting from a change of crew on an MR product tanker during 2015; and

an increase of \$1.0 million for the six months ended June 30, 2015, due to repairs on a Suezmax tanker during 2014;

partially offset by

a decrease of \$10.0 million for the three and six months ended June 30, 2015 due to the realized gain on sale of two wholly-owned subsidiaries, each of which owns one VLCC, to TIL in May 2014;

a decrease of \$9.1 million for the six months ended June 30, 2015 due to the interest income Teekay Tankers recognized in 2014 on its investments in term loans;

decreases of \$1.5 million and \$2.7 million for the three and six months ended June 30, 2015, respectively, due to higher pool management fees and commissions compared to the prior year;

Table of Contents

net decreases of \$2.1 million and \$2.2 million for the three and six months ended June 30, 2015, respectively, relating to the timing and extent of planned vessel maintenance and repairs and higher crew training costs incurred during the first half of 2015; and

decreases of \$1.3 million and \$2.9 million for the three and six months ended June 30, 2015, respectively, due to more off-hire days in the first half of 2015 resulting from unscheduled repairs required for an Aframax tanker from an incident that occurred during late-2014.

Equity income was \$3.6 million and \$6.2 million for the three and six months ended June 30, 2015, respectively, compared to equity income of \$15 thousand and \$2.6 million, respectively, for the same periods in the prior year. The increases were primarily due to:

increases of \$2.0 million and \$3.8 million for the three and six months ended June 30, 2015 primarily due to higher equity earnings from TIL resulting from higher realized spot rates earned and higher voyage days due to various vessels delivered to TIL during the three and six months ended June 30, 2014; and

increases of \$1.1 million and \$1.4 million for the three and six months ended June 30, 2015 primarily due to higher equity earnings from TTOL, in which Teekay Tankers acquired a 50% interest in August 2014; partially offset by

a decrease of \$2.1 million for the six months ended June 30, 2015 primarily due to a dilution gain recorded in March 2014 as a result of Teekay Tankers' reduced ownership interest in TIL from TIL's share issuance completed as part of its initial public offering.

Teekay Parent

Recent Developments in Teekay Parent

On December 7, 2011, the Petrojarl Banff FPSO unit (or *Banff*), which operates on the Banff field in the U.K. sector of the North Sea, suffered a severe storm event and sustained damage to its moorings, turret and subsea equipment, which necessitated the shutdown of production on the unit. Due to the damage, Teekay declared force majeure under the customer contract on December 8, 2011 and the *Banff* FPSO unit commenced a period of off-hire while the necessary repairs and upgrades were completed and the weather permitted re-installation of the unit on the Banff field. We do not have off-hire insurance covering the *Banff* FPSO. The repairs and upgrades were completed in 2014, and the *Banff* FPSO unit resumed production on the Banff field in July 2014. In May 2015, we entered into a commercial settlement agreement with the charterer where by the charterer agreed to contribute approximately \$55 million towards the upgrade costs. The settlement amount was in line with our expectations as at December 31, 2014.

In December 2014, Teekay Offshore's Board of Directors approved the acquisition of the *Knarr* FPSO from us, subject to the unit completing certain operational tests and commencing its charter contract at full rate. The *Knarr* FPSO achieved first oil and commenced its charter contract with BG in March 2015 on partial charter rate. In June 2015, the *Knarr* completed its operational testing and commenced its full charter rate and on July 1, 2015 we completed the sale of the *Knarr* to Teekay Offshore. The purchase price for the *Knarr*, which is based on a fully built-up cost of approximately \$1.26 billion, was initially financed through Teekay Offshore's assumption of an existing \$745 million

long-term debt facility and a \$492 million convertible promissory note issued by Teekay Offshore to us. During July 2015, Teekay Offshore repaid \$92 million, plus accrued interest, of the convertible promissory note to us and exercised the mandatory conversion of \$300 million of the outstanding principal balance on the note into Teekay Offshore's common units at a price of \$20.83 per common unit. Please read Item 1 Financial Statements: Note 19a Subsequent Events.

Operating Results Teekay Parent

The following table compares Teekay Parent's operating results and number of calendar-ship-days for its vessels for the three and six months ended June 30, 2015 and 2014, and compares its net revenues (which is a non-GAAP financial measure) for the three and six months ended June 30, 2015 and 2014, to revenues, the most directly comparable GAAP financial measure, for the same periods.

(in thousands of U.S. dollars, except calendar-ship-days)	Offshore Production		Conventional Tankers		Other and Corporate G&A		Teekay Parent Total	
	2015	2014	Three Months Ended June 30,				2015	2014
			2015	2014	2015	2014		
Revenues	121,870	47,170	18,413	22,263	17,153	24,621	157,436	94,054
Voyage expenses	(133)		(169)	(3,886)	(13)	(33)	(315)	(3,919)
Net revenues	121,737	47,170	18,244	18,377	17,140	24,588	157,121	90,135
Vessel operating expenses	(63,689)	(52,964)	(4,192)	(6,632)	(5,251)	(6,029)	(73,132)	(65,625)
Time-charter hire expense	(7,119)	(7,448)	(10,375)	(14,710)	(12,522)	(9,834)	(30,016)	(31,992)
Depreciation and amortization	(35,298)	(18,296)	(713)	(710)	112	62	(35,899)	(18,944)
General and administrative (1)	(6,954)	(5,826)	(550)	(964)	(2,138)	(1,762)	(9,642)	(8,552)
Loan loss provision reversal		2,521						2,521
Net loss on sale of vessels and equipment				(340)				(340)
Restructuring charges						(577)		(577)
Income (loss) from vessel operations	8,677	(34,843)	2,414	(4,979)	(2,659)	6,448	8,432	(33,374)
Equity (loss) income	(2,631)	320	2,387	(38)	(224)	(338)	(468)	(56)
Calendar-Ship-Days ⁽²⁾								
FPSO Units	364	364					364	364
Conventional Tankers			637	910			637	910
Gas Carriers					182	182	182	182
FSO Units	91	91			182	91	273	182
Shuttle Tankers	182	182					182	182

Table of Contents

(in thousands of U.S. dollars, except calendar-ship-days)	Offshore Production		Conventional Tankers		Other and Corporate G&A		Teekay Parent Total	
	Six Months Ended June 30,							
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues	204,875	106,553	34,886	47,034	35,913	52,972	275,674	206,559
Voyage expenses	(142)		(247)	(4,631)	(13)	(44)	(402)	(4,675)
Net revenues	204,733	106,553	34,639	42,403	35,900	52,928	275,272	201,884
Vessel operating expenses	(120,582)	(106,056)	(7,826)	(14,391)	(10,818)	(11,184)	(139,226)	(131,631)
Time-charter hire expense	(14,203)	(14,814)	(20,811)	(27,922)	(23,829)	(20,532)	(58,843)	(63,268)
Depreciation and amortization	(56,557)	(36,631)	(1,426)	(790)	225	119	(57,758)	(37,302)
General and administrative ⁽¹⁾	(12,853)	(11,551)	(1,060)	(2,086)	(8,307)	(7,420)	(22,220)	(21,057)
Loan loss provision reversal		2,521						2,521
Net loss on sale of vessels and equipment				(502)				(502)
Restructuring charges					(1,782)	(657)	(1,782)	(657)
Income (loss) from vessel operations	538	(59,978)	3,516	(3,288)	(8,611)	13,254	(4,557)	(50,012)
Equity (loss) income	(7,704)	(979)	3,912	2,023	(525)	(276)	(4,317)	768
Calendar-Ship-Days ⁽²⁾								
FPSO Units	656	724					656	724
Conventional Tankers			1,267	1,895			1,267	1,895
Gas Carriers					362	362	362	362
FSO Units	181	181			362	181	543	362
Shuttle Tankers	362	362					362	362

(1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to offshore production, conventional tankers and other and corporate G&A based on estimated use of corporate resources.

(2) Apart from four FPSO units and one conventional tanker, all remaining calendar-ship-days presented for 2015 relate to in-chartered days.

Teekay Parent Offshore Production

Offshore Production for Teekay Parent consists of its FPSO units. As at June 30, 2015, Teekay Parent had a direct interest in four 100%-owned operating FPSO units.

The *Hummingbird Spirit* FPSO unit is expected to remain on its current field until the first quarter of 2016. The *Hummingbird Spirit* FPSO charter contract includes an incentive compensation component based on the oil price. In

addition, the *Foinaven* FPSO unit's charter contract includes incentives based on total oil production for the year, certain operational measures, and the average annual oil price. The recent declines in the price of oil has or will negatively impact our incentive compensation under these contracts and may negatively impact our revenues in future periods if the oil price remains at or falls from current levels. The *Banff* FPSO unit completed its repairs and upgrades following storm damage in December 2011, and resumed production on the Banff field in July 2014. In mid-March 2015, the *Knarr* FPSO unit achieved first oil and commenced its charter contract with BG Norge, and during June 2015 the *Knarr* FPSO unit completed operational testing and commenced at the contract's full charter rate. On July 1, 2015 we completed the sale of the *Knarr* FPSO unit to Teekay Offshore.

The number of Teekay Parent's FPSO calendar-ship days for the six months ended June 30, 2015 decreased compared to the same period last year due to the sale of the *Petrojarl I* FPSO unit to Teekay Offshore in December 2014, partially offset by the *Knarr* FPSO unit commencing operations.

Income (loss) from vessel operations for Teekay Parent's Offshore Production business improved to \$8.7 million and \$0.5 million for the three and six months ended June 30, 2015 compared to \$(34.8) million and \$(60.0) million for the same periods last year, primarily as a result of:

increases of \$27.0 million and \$33.8 million, respectively, for the three and six months ended June 30, 2015 compared with the same periods last year, excluding general and administrative expenses, from the *Knarr* FPSO unit commencing operations;

increases of \$10.0 million and \$20.6 million, respectively, for the three and six months ended June 30, 2015 compared with the same periods last year, excluding general and administrative expenses, due to the *Petrojarl Banff* FPSO unit recommencing operations under its time-charter contract in July 2014, partially offset by the in-process revenue contract for the *Banff* being fully amortized in 2014;

Table of Contents

increases of \$5.3 million and \$11.9 million, respectively, for the three and six months ended June 30, 2015 compared with the same periods last year, excluding general and administrative expenses, due to the *Petrojarl I* FPSO unit's sale to Teekay Offshore in December 2014 subsequent to its contract expiration and subsequent lay-up in April 2013; and

increases of \$12.3 million and \$9.2 million, respectively, for the three and six months ended June 30, 2015 compared with the same periods last year, excluding general and administrative expenses, related to the *Petrojarl Foinaven* due to higher production in 2015 compared to the same periods in the prior year due to compressor and sub-sea issues which occurred in 2014, partially offset by lower average oil price-linked revenue in 2015; partially offset by:

decreases of \$8.5 million and \$10.9 million, respectively, for the three and six months ended June 30, 2015 compared with the same periods last year, excluding general and administrative expenses, relating to the *Hummingbird Spirit* FPSO unit, primarily due to lower incentive revenue earned in 2015 as a result of lower oil prices and a loan loss recovery in 2014 related to a front-end engineering and design (or *FEED*) study; and

decreases of \$1.1 million and \$1.3 million, respectively, for the three and six months ended June 30, 2015 compared with the same periods last year, from an increase in general and administrative expenses, primarily due to a greater amount of corporate services provided in 2015 to support the *Knarr* and *Petrojarl Banff* FPSO units commencing and recommencing operations, respectively.

Teekay Parent Conventional Tankers

As at June 30, 2015, Teekay Parent had a direct interest in one conventional tanker, two chartered-in conventional tankers from third parties, and four chartered-in conventional tankers from Teekay Offshore. The average fleet size (including vessels chartered-in), as measured by calendar-ship-days, decreased during the three and six months ended June 30, 2015 compared to the same periods in the prior year due to the redeliveries to their owners of two chartered-in Suezmax tankers, one chartered-in Aframax tanker and one chartered-in MR product tanker during 2014, and the sale of four Suezmax tankers during 2014, partially offset by a new time-charter arrangement for two Aframax tankers during 2014 and the addition of one VLCC during 2014.

Income (loss) from vessel operations for Teekay Parent's Conventional Tankers was \$2.4 million and \$3.5 million for the three and six months ended June 30, 2015 compared to \$(5.0) million and (\$3.3) million in the same periods in the prior year. The changes were primarily as a result of:

net increases of \$2.5 million and \$1.4 million for the three and six months ended June 30, 2015, respectively, due to lower vessel operating expenses from the sale of the four Suezmax tankers during 2014 and lower time-charter hire expense from redeliveries of various tankers to their owners during 2014, partially offset by the loss of revenue due to the sale and redeliveries of tankers; and

increases of \$3.6 million and \$4.4 million for the three and six months ended June 30, 2015, respectively, due to higher average spot tanker TCE rates.

Teekay Parent Other and Corporate G&A

As at June 30, 2015, Teekay Parent had two chartered-in LNG carriers owned by Teekay LNG and two chartered-in FSO units owned by Teekay Offshore.

(Loss) income from vessel operations for Teekay Parent's Other and Corporate G&A decreased to \$(2.7) million and \$(8.6) million, respectively, for the three and six months ended June 30, 2015 compared to \$6.4 million and \$13.3 million for the same periods in the prior year, primarily as a result of:

decreases of \$3.9 million and \$8.8 million, respectively, for the three and six months ended June 30, 2015 compared to the same periods in the prior year, excluding general and administrative expenses, due to the *Arctic Spirit* and *Polar Spirit* LNG carriers earning lower charter rates commencing in 2015 from new contracts with the existing charterers;

a decrease of \$6.1 million for the six months ended June 30, 2015 compared to the same period in the prior year mainly due to the interest income recognized in 2014 related to Teekay Parent's investment in a term loan which was entered into in 2011 and ended in 2014;

an increase of \$4.0 million for the three and six months ended June 30, 2015 compared to the same periods in the prior year from transaction fees received from TIL for our arrangement of the purchasing and selling of their vessels; and

a decrease of \$1.1 million for the six months ended June 30, 2015 due to restructuring charges in 2015 for the reorganization of Teekay's marine operations and corporate services.

Equity (loss) income decreased to \$(0.5) million and \$(4.3) million, respectively, for the three and six months ended June 30, 2015 compared to \$(0.1) million and \$0.8 million for same periods in the prior year, primarily due to a deferred tax asset write down in 2015 and foreign exchange losses in Teekay Parent's 43% investment in Sevan Marine ASA in 2015.

Table of Contents**Other Consolidated Operating Results**

The following table compares our other consolidated operating results for the three and six months ended June 30, 2015 and 2014:

(in thousands of U.S. dollars, except percentages)	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Interest expense	(62,388)	(49,656)	25.6	(113,734)	(98,989)	14.9
Interest income	1,199	793	51.2	2,729	2,576	5.9
Realized and unrealized gain (loss) on non-designated derivative instruments	63,752	(75,331)	(184.6)	(19,634)	(122,579)	(84.0)
Foreign exchange (loss) gain	(1,604)	(2,046)	(21.6)	15,906	(2,940)	(641.0)
Other (loss) income	(389)	(734)	(47.0)	(14)	7,517	(100.2)
Income tax (expense) recovery	(752)	(3,193)	(76.4)	243	(5,991)	(104.1)

Interest Expense. Interest expense increased to \$62.4 million and \$113.7 million, respectively, for the three and six months ended June 30, 2015, from \$49.7 million and \$99.0 million, respectively, for the same periods in the prior year, primarily due to:

increases of \$5.3 million and \$10.9 million for the three and six months ended June 30, 2015, respectively, due to Teekay Offshore's borrowings relating to the *Suksan Salamander* FSO unit (which commenced operations in the third quarter of 2014) and five towage vessels (which delivered during the first and second quarters of 2015), and the \$300 million of senior unsecured bonds Teekay Offshore issued in May 2014;

increases of \$11.9 million and \$15.8 million for the three and six months ended June 30, 2015, respectively, as a result of the *Knarr* FPSO unit commencing operations in March 2015;

increases of \$2.4 million and \$4.4 million for the three and six months ended June 30, 2015, respectively, as a result of further borrowing under a revolving credit facility Teekay Parent entered into in December 2012; and

increases of \$0.4 million and \$1.5 million for the three and six months ended June 30, 2015, respectively, due to increases in the LIBOR rate and higher overall debt balances compared to the same period last year; partially offset by

decreases of \$2.7 million and \$5.7 million for the three and six months ended June 30, 2015, respectively, relating to lower interest expense on Teekay Parent, Teekay Offshore and Teekay LNG's NOK senior unsecured bonds as a result of the depreciation of the NOK against the U.S. Dollar and a decrease in NIBOR. (However, this decrease was offset by an increase in realized losses on cross currency swaps related to our NOK senior

unsecured bonds, which losses are included in foreign currency exchange (losses) gains);

decreases of \$1.2 million and \$2.0 million for the three and six months ended June 30, 2015, respectively, due to an increase in capitalized interest as a result of Teekay LNG exercising three newbuilding options with DSME in December 2014 and entering into an additional newbuilding agreement with DSME in February 2015 and two additional newbuilding agreements with HHI in June 2015;

decreases of \$1.0 million and \$2.0 million for the three and six months ended June 30, 2015, respectively, due to lower interest rates on debt facilities and elimination of interest on capital lease obligations relating to Teekay LNG's LNG carriers in Teekay Nakilat Corporation (or the *Teekay Nakilat Joint Venture*) upon debt refinancing and termination of capital lease obligations in December 2014;

decreases of \$0.6 million and \$1.9 million for the three and six months ended June 30, 2015, respectively, due to lower interest expense on Teekay LNG's capital lease obligations associated with the sales of the *Algeciras Spirit* and *Huelva Spirit* in February 2014 and August 2014, respectively;

decreases of \$1.2 million and \$2.4 million for the three and six months ended June 30, 2015, respectively, due to lower interest expense on Teekay Parent's 8.5% bonds as a result of bond repurchases during 2014;

a decrease of \$1.5 million for the six months ended June 30, 2015, mainly due to the sale of four Suezmax crude oil tankers along with their related debt facilities from Teekay Parent to TIL during February 2014;

decreases of \$0.6 million and \$1.2 million for the three and six months ended June 30, 2015, respectively, relating to capitalized interest on the advances Teekay LNG made to the Yamal LNG Joint Venture in July 2014 to fund its proportionate share of the joint venture's newbuilding installments; and

decreases of \$0.5 million and \$1.0 million for the three and six months ended June 30, 2015, respectively, due to the impact of a decrease in EURIBOR and depreciation of the Euro against the U.S. Dollar on our Euro-denominated debt facilities.

Table of Contents

Realized and unrealized gains (losses) on non-designated derivative instruments. Realized and unrealized gains (losses) related to derivative instruments that are not designated as hedges for accounting purposes are included as a separate line item in the consolidated statements of income (loss). Net realized and unrealized gains (losses) on non-designated derivatives were \$63.8 million and (\$19.6) million, respectively, for the three and six months ended June 30, 2015, compared to (\$75.3) million and (\$122.6) million, respectively, for the three and six months ended June 30, 2014, as detailed in the table below:

(in thousands of U.S. Dollars)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Realized (losses) gains relating to:				
Interest rate swap agreements	(27,205)	(30,755)	(55,094)	(60,245)
Interest rate swap agreement terminations				1,000
Foreign currency forward contracts	(4,232)	110	(9,660)	(1,175)
	(31,437)	(30,645)	(64,754)	(60,420)
Unrealized gains (losses) relating to:				
Interest rate swap agreements	83,986	(39,096)	40,326	(64,494)
Foreign currency forward contracts	9,386	(1,926)	3,057	1,125
Stock purchase warrants	1,817	(3,664)	1,737	1,210
	95,189	(44,686)	45,120	(62,159)
Total realized and unrealized gains (losses) on derivative instruments	63,752	(75,331)	(19,634)	(122,579)

The realized gains and (losses) relate to amounts we actually realized or paid to settle such derivative instruments. The unrealized gains (losses) on interest rate swaps for the three and six months ended June 30, 2015 and 2014 were primarily due to changes in the forward interest swap rates.

As at June 30, 2015 and 2014, we had interest rate swap agreements with aggregate average net outstanding notional amounts of approximately \$3.6 billion and \$3.8 billion, respectively, with average fixed rates of approximately 3.4% and 3.6%, respectively. Short-term variable benchmark interest rates during these periods were generally less than 1.0% and, as such, we incurred realized losses of \$27.2 million and \$55.1 million during the three and six months ended June 30, 2015, respectively, compared to realized losses of \$30.8 million and \$60.2 million for the respective periods in the prior year under the interest rate swap agreements. We also incurred realized gains of \$1.0 million during the six months ended June 30, 2014, from the early termination of one interest rate swap. Primarily as a result of changes in NOK during 2015 from 2014, we recognized realized (losses) gains of \$(4.2) million and \$(9.7) million during the three and six months ended June 30, 2015, respectively, compared to \$0.1 million and \$(1.2) million for the same periods last year under the foreign currency forward contracts.

Primarily as a result of significant changes in long-term benchmark interest rates during the three and six months ended June 30, 2015, we recognized unrealized gains (losses) of \$84.0 million and \$40.3 million, respectively, compared to \$(39.1) million and \$(64.5) million for the same periods last year under the interest rate swap

agreements. Primarily as a result of changes in NOK during 2015 from 2014, we recognized unrealized gains (losses) of \$9.4 million and \$3.1 million during the three and six months ended June 30, 2015, respectively, compared to \$(1.9) million and \$1.1 million for the same periods last year under the foreign currency forward contracts.

In January 2014, we and Teekay Tankers formed TIL. We and Teekay Tankers purchased 5.0 million shares of common stock, representing an initial aggregate 20% interest in TIL, as part of a \$250 million private placement by TIL, which represents a total investment by us and Teekay Tankers of \$50.0 million. In addition, we and Teekay Tankers received stock purchase warrants entitling us and Teekay Tankers to purchase up to 1.5 million shares of common stock of TIL at a fixed price of \$10 per share. During the three and six months ended June 30, 2015, we recognized a \$1.8 million and \$1.7 million unrealized gains, compared to an unrealized (losses) gains of \$(3.7) million and \$1.2 million compared to the same periods last year on the stock purchase warrants, which are included in the total unrealized gains (losses) on derivatives. Please read Financial Statements: Note 15 Derivative Instruments and Hedging Activities.

Please see Item 5 Operating and Financial Review and Prospects: Valuation of Derivative Financial Instruments in our Annual Report on Form 20-F for the year ending December 31, 2014, which explains how our derivative instruments are valued, including the significant factors and uncertainties in determining the estimated fair value and why changes in these factors result in material variances in realized and unrealized gains (losses) on derivative instruments.

Foreign Exchange (Loss) Gain. Foreign currency exchange (losses) gains were (\$1.6) million and \$15.9 million, for the three and six months ended June 30, 2015, respectively, compared to (\$2.0) million and (\$2.9) million, respectively, for the same periods last year. Our foreign currency exchange (losses) gains, substantially all of which are unrealized, are due primarily to the relevant period-end revaluation of our NOK-denominated debt and our Euro-denominated term loans, capital leases and restricted cash for financial reporting purposes and the realized and unrealized gains (losses) on our cross currency swaps. Gains on NOK-denominated and Euro-denominated monetary liabilities reflect a stronger U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses on NOK-denominated and Euro-denominated monetary liabilities reflect a weaker U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. For the three and six months ended June 30, 2015, foreign currency exchange losses include realized losses of \$(3.8) million (2014 \$(0.1) million) and \$(7.9) million (2014 \$(0.3) million) and unrealized gains (losses) of \$13.5 million (2014 \$(24.8) million) and \$42.2 million (2014 \$(11.5) million) on our cross currency swaps and unrealized (losses) gains of \$(10.4) million (2014 \$20.5 million) and \$42.3 million (2014 \$6.1 million) on the revaluation of our NOK-denominated debt. For the three and six months ended June 30, 2015, foreign currency exchange (losses) gains include the revaluation of our Euro-denominated restricted cash and debt of \$(8.8) million and \$21.2 million as compared to \$1.7 million and \$1.0 million for the same periods of 2014.

Income Tax (Expense) Recovery. Income tax (expense) recovery decreased to (\$0.8) million and \$0.2 million for the three and six months ended June 30, 2015, compared to (\$3.2) million and (\$6.0) million, for the same periods last year. The decrease in income tax expense for the three and six months ended June 30, 2015 was primarily due to: tax losses in 2015 relating to the operation of the *Knarr* FPSO unit; a decrease in freight taxes in Teekay Parent and Teekay Tankers; and, a reversal of an uncertain tax position and recognition of a deferred income tax asset in the first quarter of 2015 in Teekay LNG.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES****Liquidity and Cash Needs****Teekay Offshore**

Teekay Offshore's business model is to employ its vessels on fixed-rate contracts with major oil companies, typically with original terms between three to ten years. The operating cash flow Teekay Offshore's vessels generate each quarter, excluding a reserve for maintenance capital expenditures and distributions on Teekay Offshore's preferred units, is generally paid out to its common unitholders within approximately 45 days after the end of each quarter. Teekay Offshore's primary short-term liquidity needs are to pay quarterly distributions on its outstanding common and Series A and Series B preferred and Series C convertible preferred units, to pay operating expenses, dry docking expenditures and its debt service costs and to fund general working capital requirements. We anticipate that Teekay Offshore's primary sources of funds for its short-term liquidity needs will be cash flows from operations. We believe that Teekay Offshore's existing cash and cash equivalents, in addition to all other sources of cash including cash from operations, will be sufficient to meet its existing liquidity needs, other than acquisitions and expansion capital expenditures, for at least the next 12 months. We expect that Teekay Offshore 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 Teekay Offshore may pursue to purchase additional vessels from us or third parties.

Teekay Offshore's long-term liquidity needs primarily relate to expansion and maintenance capital expenditures and debt repayment. Expansion capital expenditures primarily represent the purchase or construction of vessels to the extent the expenditures increase the operating capacity or revenue generated by Teekay Offshore's fleet, while maintenance capital expenditures primarily consist of dry docking expenditures and expenditures to replace vessels in order to maintain the operating capacity or revenue generated by its fleet. Teekay Offshore's primary sources of funds for its long-term liquidity needs are from cash from operations, long-term bank borrowings and other debt or equity financings, or a combination thereof. Consequently, Teekay Offshore's ability to continue to expand the size of its fleet is dependent upon its ability to obtain long-term bank borrowings and other debt, as well as raising equity.

As at June 30, 2015, Teekay Offshore's total cash and cash equivalents were \$242.8 million, compared to \$252.1 million at December 31, 2014. Teekay Offshore's total liquidity, including cash, cash equivalents and undrawn long-term borrowings, was \$242.8 million as at June 30, 2015, compared to \$351.7 million as at December 31, 2014. The decrease in liquidity was primarily due to: liquidity used to fund a portion of the final installment payment on the *Arendal Spirit* UMS in February 2015 and payments for the delivery of five towage and offshore installation vessels in the first and second quarters of 2015 and payments for committed newbuildings and conversions; a reduction in the amount available for borrowing under Teekay Offshore's revolving credit facilities; and the scheduled repayments or prepayments of outstanding term loans; partially offset by net proceeds of \$120.8 million from Teekay Offshore's issuance of Series B preferred units in April 2015.

As at June 30, 2015, Teekay Offshore had a working capital deficit of \$358.2 million, compared to a working capital deficit of \$124.0 million at December 31, 2014. The current portion of long-term debt increased mainly due to the reclassification of NOK 500 million unsecured bonds maturing in January 2016 and two revolving credit facilities maturing in the second quarter of 2016 to current debt as at June 30, 2015, as well as the drawdown of three new debt facilities and an existing revolving credit facility, the proceeds of which Teekay Offshore used primarily to fund the final installment payment on the *Arendal Spirit* UMS and the delivery of five towage and offshore installation vessels during the first and second quarters of 2015. Teekay Offshore expects to manage its working capital deficit primarily with net operating cash flow generated, new term loans and, to a lesser extent, the proceeds of equity and bond

issuances to replenish liquidity used for newbuilding installments.

Teekay LNG

Teekay LNG's business model is to employ its vessels on fixed-rate contracts primarily with large energy companies and their transportation subsidiaries. The operating cash flow Teekay LNG's vessels generates each quarter, excluding a reserve for maintenance capital expenditures and debt repayments, is generally paid out to its unitholders within approximately 45 days after the end of each quarter. Teekay LNG's primary short-term liquidity needs are payments of these quarterly distributions on its outstanding units, operating expenses, dry-docking expenditures and its debt service costs and to fund general working capital requirements. We anticipate that Teekay LNG's primary sources of funds for its short-term liquidity needs will be cash flows from operations. We believe that Teekay LNG's existing cash and cash equivalents and undrawn long-term borrowings, in addition to all other sources of cash, including cash from operations, will be sufficient to meet its existing liquidity needs, other than acquisitions and expansion capital expenditures, for at least the next 12 months.

Teekay LNG's long-term liquidity needs primarily relate to expansion and maintenance capital expenditures and debt repayment. Expansion capital expenditures primarily represent the purchase or construction of vessels to the extent the expenditures increase the operating capacity or revenue generated by its fleet, while maintenance capital expenditures primarily consist of dry-docking expenditures and expenditures to replace vessels in order to maintain the operating capacity or revenue generated by its fleet. Teekay LNG's primary sources of funds for its long-term liquidity needs are from cash from operations, long-term bank borrowings and other debt or equity financings, or a combination thereof. Consequently, Teekay LNG's ability to continue to expand the size of its fleet is dependent upon its ability to obtain long-term bank borrowings and other debt, as well as raising equity.

As at June 30, 2015, Teekay LNG's cash and cash equivalents were \$107.0 million, compared to \$159.6 million at December 31, 2014. Teekay LNG's total liquidity, which consists of cash, cash equivalents and undrawn medium-term credit facilities, was \$244.1 million as at June 30, 2015, compared to \$295.2 million as at December 31, 2014. The decrease in total liquidity is primarily due to installment payments relating to Teekay LNG's newbuildings. In May 2015, Teekay LNG issued NOK 1 billion in senior unsecured bonds in the Norwegian bond market that mature in May 2020. The aggregate principal amount of the bonds was equivalent to approximately \$134 million and all interest and principal payments have been swapped into U.S. Dollars at a fixed rate of 5.92%. The net proceeds from the bond offering are expected to be used for general partnership purposes, including the funding of newbuilding installments.

As of June 30, 2015, Teekay LNG had a working capital deficit of \$182.1 million. The working capital deficit includes a \$61.4 million current capital lease obligation for two Suezmax tankers, under which the owner has the option to require Teekay LNG to purchase the vessels. However, Teekay LNG does not expect the owner to exercise this option. Teekay LNG expects to manage the remaining portion of its working capital deficit primarily with net operating cash flow, debt refinancing and, to a lesser extent, existing undrawn revolving credit facilities. As at June 30, 2015, Teekay LNG had undrawn revolving credit facilities of \$137.1 million.

Table of Contents**Teekay Tankers**

Teekay Tankers' business model is to own and charter out oil and product tankers and it employs a chartering strategy that seeks to capture upside opportunities in the tanker spot market while using fixed-rate time charters to reduce downside risks. Teekay Tankers' primary sources of liquidity are cash and cash equivalents, cash flows provided by its operations, its undrawn credit facilities, proceeds from the sale of vessels, and capital raised through financing transactions.

As at June 30, 2015, Teekay Tankers' total cash and cash equivalents were \$83.1 million, compared to \$162.8 million at December 31, 2014. Teekay Tankers' total liquidity, including cash, cash equivalents and undrawn credit facilities, was \$229.6 million as at June 30, 2015, compared to \$289.0 million as at December 31, 2014. The decrease in total liquidity was primarily the result of Teekay Tankers' acquisition of five vessels during the first quarter of 2015 for a total purchase price of \$230.3 million, which was partially offset by the proceeds from its new loan facility in the amount of \$126.6 million and additional net proceeds of \$37.3 million related to the issuance of Class A common stock under Teekay Tankers' continuous offering program (or *COP*), and additional net proceeds of \$13.7 million from the issuance of shares of its Class A common stock in January 2015 upon the exercise by the underwriters of their option to purchase additional shares in connection with Teekay Tankers' December 2014 public equity offering. We believe that Teekay Tankers' existing cash and cash equivalents and undrawn long-term borrowings, in addition to all other sources of cash, including cash from operations, will be sufficient to meet its existing liquidity needs, other than acquisitions and expansion capital expenditures, for at least the next 12 months.

Teekay Tankers' short-term liquidity requirements include the payment of operating expenses, dry-docking expenditures, debt servicing costs, dividends on its shares of common stock and scheduled repayments of its long-term debt, as well as funding its other working capital requirements. Teekay Tankers' short-term charters and spot market tanker operations contribute to the volatility of its net operating cash flow, and thus its ability to generate sufficient cash flows to meet its 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.

Teekay Tankers' long-term capital needs are primarily for capital expenditures and debt repayment. Generally, we expect that Teekay Tankers' long-term sources of funds will be cash balances, long-term bank borrowings and other debt or equity financings. We expect that Teekay Tankers 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 Teekay Tankers may pursue to purchase additional vessels from Teekay or third parties.

Teekay Tankers' primary revolving credit facility is repayable in full in November 2017. As of June 30, 2015, the facility had an outstanding balance of \$377.0 million. Immediately preceding its maturity in November 2017, the maximum amount available under the facility will be \$349.4 million. Teekay Tankers' ability to refinance any amounts outstanding under this facility on maturity in November 2017 will likely depend on the strength of the tanker market. If the tanker market weakens materially, Teekay Tankers may need to raise additional liquidity through the issuance of common stock, preferred stock or bonds, or a combination thereof. Alternatively, Teekay Tankers may seek to renegotiate its primary revolving credit facility to extend repayment of the facility. This may result in an increase in the rate of interest Teekay Tankers pays on amounts borrowed under the facility. In addition, Teekay Tankers' future liquidity requirements may impact the types of investments Teekay Tankers makes prior to the refinancing of the revolving credit facility.

Teekay Parent

Teekay Parent owns four FPSO units (including the *Knarr* FPSO unit, which was acquired by Teekay Offshore in the third quarter of 2015) and one conventional tanker and in-charters a number of vessels. Teekay Parent's primary short-term liquidity needs are the payment of operating expenses, dry-docking expenditures, debt servicing costs, dividends on its shares of common stock and scheduled repayments of long-term debt, as well as funding its other working capital requirements. Teekay Parent's primary sources of liquidity are cash and cash equivalents, cash flows provided by operations, dividends/distributions and management fees received from Teekay Offshore, Teekay LNG and Teekay Tankers, its undrawn credit facilities and proceeds from the sale of vessels to external parties or Teekay Offshore (and in the past, Teekay LNG and Teekay Tankers). As at June 30, 2015, Teekay Parent's total cash and cash equivalents was \$275.0 million, compared to \$232.3 million at December 31, 2014. Teekay Parent's total liquidity, including cash, cash equivalents and undrawn credit facilities, was \$330.0 million as at June 30, 2015, compared to \$466.8 million as at December 31, 2014. The decrease in liquidity is mainly attributable to a \$63.5 million decrease in the amount available on a \$500 million equity margin revolver and a drawdown under the facility of \$171.0 million, partially offset by a \$100.0 million prepayment on the Teekay Petrojarl revolver during the six months ended June 30, 2015. The equity margin revolver is secured on the market value of 23.8 million common units of Teekay Offshore and 25.2 million common units of Teekay LNG owned by Teekay Parent. We believe that Teekay Parent's existing cash and cash equivalents and undrawn long-term borrowings, in addition to all other sources of cash including cash from operations, will be sufficient to meet its existing liquidity needs for at least the next 12 months.

We are targeting to complete the remaining FPSO sales to Teekay Offshore or third parties over the next several years. Once these sales are completed and the net proceeds are applied by Teekay Parent, we do not expect Teekay Parent to have a significant net debt position.

Teekay Corporation - Consolidated

Overall, our consolidated operations are capital intensive. We finance the purchase of our vessels primarily through a combination of borrowings from commercial banks or our joint venture partners, the issuance of equity and debt securities (primarily by our publicly-traded subsidiaries) and cash generated from operations. In addition, we may use sale and lease-back arrangements as a source of long-term liquidity. Occasionally, we use our revolving credit facilities to temporarily finance capital expenditures until longer-term financing is obtained, at which time we typically use all or a portion of the proceeds from the longer term financings to prepay outstanding amounts under revolving credit facilities. We have pre-arranged financing of approximately \$388.4 million, which mostly relates to our remaining 2015 capital expenditure commitments. We are currently in the process of obtaining additional debt financing for our remaining capital commitments relating to our portion of newbuildings on order as at June 30, 2015. As at June 30, 2015, Teekay Corporation's total consolidated cash and cash equivalents was \$707.9 million, compared to \$806.9 million at December 31, 2014. Teekay Corporation's total consolidated liquidity, including cash, cash equivalents and undrawn credit facilities, was \$1.0 billion as at June 30, 2015, compared to \$1.4 billion as at December 31, 2014.

Table of Contents

Our pre-arranged newbuilding debt facilities are in addition to our undrawn credit facilities. We continue to consider strategic opportunities, including the acquisition of additional vessels and expansion into new markets. We may choose to pursue such opportunities through internal growth, joint ventures or business acquisitions. We intend to finance any future acquisitions through various sources of capital, including internally-generated cash flow, existing credit facilities, additional debt borrowings, or the issuance of additional debt or equity securities or any combination thereof.

Our revolving credit facilities and term loans are described in Item 1 Financial Statements: Note 8 Long-Term Debt. They contain covenants and other restrictions typical of debt financing secured by vessels that restrict the ship-owning subsidiaries from: incurring or guaranteeing indebtedness; changing ownership or structure, including mergers, consolidations, liquidations and dissolutions; making dividends or distributions if we are in default; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; or entering into a new line of business. Among other matters, our long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and nine loan agreements require the maintenance of vessel market value to loan ratios. As at June 30, 2015, these vessel market value to loan ratios ranged from 133.3% to 861.1% compared to their minimum required ratios of 105% to 135%, respectively. The vessel values used in these ratios are the appraised values prepared by us based on second-hand sale and purchase market data. A weakening of the conventional tanker, FPSO or LNG/LPG carrier market could negatively affect the ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at June 30, 2015 this amount was \$100.0 million. Most of the loan agreements also require that we maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity from 5% to 7.5% of total debt. As at June 30, 2015, this aggregate amount was \$395.7 million. We were in compliance with all of our loan covenants at June 30, 2015.

Our \$500 million revolving credit facility, of which \$410.0 was drawn at June 30, 2015, is secured by common units of Teekay Offshore and Teekay LNG that are owned by us. During August 2015, as a result of the decline in the market value of those common units pledged as collateral, we were required to repay \$148.0 million of the revolving credit facility, such that the resulting drawn loan-to-value ratio was no higher than 27.5%. If the aggregate market value of the pledged common units were to further decline to below \$867.2 million (aggregate market value was \$1.1 billion as at August 28, 2015), cash distributions we receive from the pledged common units would be held as further collateral and the lenders would be entitled to amend the material terms of the facility, which we would have the option to accept or repay the facility. We are currently in discussions with the lenders to amend the current terms of this revolving credit facility.

We conduct our funding and treasury activities within corporate policies designed to minimize borrowing costs and maximize investment returns while maintaining the safety of the funds and appropriate levels of liquidity for our purposes. We hold cash and cash equivalents primarily in U.S. Dollars, with some balances held in Australian Dollars, British Pounds, Canadian Dollars, Euros, Japanese Yen, Norwegian Kroner and Singapore Dollars.

We are exposed to market risk from foreign currency fluctuations and changes in interest rates, spot tanker market rates for vessels and bunker fuel prices. We use forward foreign currency contracts, cross currency and interest rate swaps, forward freight agreements and bunker fuel swap contracts to manage currency, interest rate, spot tanker rates and bunker fuel price risks. Please read Item 3 Quantitative and Qualitative Disclosures About Market Risk.

Cash Flows

The following table summarizes our consolidated cash and cash equivalents provided by (used for) operating, financing and investing activities for the periods presented:

(in thousands of U.S. Dollars)	Six Months Ended June 30,	
	2015	2014
Net operating cash flows	336,314	201,529
Net financing cash flows	447,786	458,658
Net investing cash flows	(883,119)	(525,947)

Operating Cash Flows

Our net cash flow from operating activities fluctuates primarily as a result of changes in vessel utilization and TCE rates, changes in interest rates, fluctuations in working capital balances, the timing and amount of drydocking expenditures, repairs and maintenance activities, vessel additions and dispositions, and foreign currency rates. Our exposure to the spot tanker market has contributed significantly to fluctuations in operating cash flows historically as a result of highly cyclical spot tanker rates, which have increased in recent months after a number of years of historically lower rates. In addition, the production performance of certain of our FPSO units that operate under contracts with a production-based compensation component has contributed to fluctuations in operating cash flows. As the charter contracts of two of our FPSO units include incentives based on average annual oil prices, the recent reduction in global oil prices may negatively impact our operating cash flows.

Net cash flow from operating activities increased to \$336.3 million for the six months ended June 30, 2015, from \$201.5 million for the six months ended June 30, 2014. This increase was primarily due to a \$189.9 million increase in income from vessel operations before depreciation, amortization, asset impairments and loan loss recoveries, net gain on sale of vessels and equipment and the amortization of in-process revenue contracts of our businesses, primarily as a result of increased operating cash flows from our businesses due to higher average TCE rates earned by our conventional tanker fleet, increases in conventional tanker fleet size and increased operating cash flows from our FPSO fleet. We received dividends from our joint ventures of \$46.1 million for the six months ended June 30, 2015, compared to \$8.2 million in 2014. There was an \$13.1 million increase in cash flow from lower expenditures for dry docking due to fewer vessels dry-docked in 2015 compared to 2014. The increases in cash flow were partially offset by a decrease in changes to non-cash working capital items of \$61.5 million, primarily due to the timing of capitalized vessel modifications and the timing of deferred revenue and a \$10.4 million increase in interest expense (net of interest income and including realized losses on interest rate swaps and interest rate swaps terminations) for the six months ended June 30, 2015 compared to 2014.

Table of Contents

For a further discussion of changes in income from vessel operations before depreciation, amortization, asset impairments, net (gain) loss on sale of vessels and equipment and the amortization of in-process revenue contracts of our businesses, please read Results of Operations.

Financing Cash Flows

Teekay's publicly-traded subsidiaries (or the *Daughter Companies*) hold most of our liquefied gas carriers (Teekay LNG), offshore assets, including shuttle tankers, FPSO units and FSO and offshore support units (Teekay Offshore) and our conventional tanker assets (Teekay Tankers). From and including the respective initial public offerings of these subsidiaries, Teekay has been selling assets that are a part of these businesses to the Daughter Companies. Historically, the Daughter Companies have distributed operating cash flows to their owners in the form of distributions or dividends. The Daughter Companies typically finance acquisitions, including acquisitions of assets from Teekay, with a combination of net proceeds from public and private issuances of debt and equity securities or the assumption of debt related to acquired vessels. The Daughter Companies raised net proceeds from issuances of new equity to the public and to third-party investors of \$187.6 million in the six months ended June 30, 2015, compared to \$7.5 million in the same period last year. As the sizes of the Daughter Companies have grown through acquisitions, whether from Teekay or otherwise, the amount of their operating cash flows generally has increased, which has resulted in larger aggregate distributions, primarily from Teekay Offshore and Teekay LNG. Distributions to non-c