

TEEKAY SHIPPING CORP  
Form 6-K  
August 16, 2005

**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, 2005

Commission file number 1- 12874

**TEEKAY SHIPPING CORPORATION**

(Exact name of Registrant as specified in its charter)

TK House  
Bayside Executive Park  
West Bay Street & Blake Road  
P.O. Box AP-59212, Nassau, Bahamas  
(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

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.]

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Yes \_\_\_\_\_ No  X

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82- \_\_\_\_\_]

**TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES**

**REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005**

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## ITEM 1 FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
**Teekay Shipping Corporation**

We have reviewed the consolidated balance sheet of Teekay Shipping Corporation and subsidiaries as of June 30, 2005, the related consolidated statements of income for the three and six months ended June 30, 2005 and 2004, and the consolidated statements of cash flows for the six months ended June 30, 2005 and 2004. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Teekay Shipping Corporation and subsidiaries as of December 31, 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related schedule as of and for the year ended December 31, 2004 (not presented herein) and in our report dated February 18, 2005, we expressed an unqualified opinion on those consolidated financial statements and related schedule when considered in relation to the financial statements taken as a whole. In our opinion, the information set forth in the consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Vancouver, Canada,  
 July 22, 2005

/s/ ERNST & YOUNG LLP  
 Chartered Accountants

## TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months
	2005	2004	2005
	-----	-----	-----
	\$	\$	\$
	-----	-----	-----
<b>VOYAGE REVENUES</b>	480,140	477,622	997,551
<b>OPERATING EXPENSES</b>			
Voyage expenses	98,296	108,708	196,825
Vessel operating expenses	51,341	53,765	105,781
Time-charter hire expense	124,454	106,574	233,036
Depreciation and amortization	50,306	60,846	104,389
General and administrative	40,179	25,816	73,877
Writedown / (gain) on sale of vessels and equipment (note 11)	(15,894)	(450)	(117,747)
Restructuring charge	-	240	-

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

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<b>Total operating expenses</b>	348,682	355,499	596,161
<b>Income from vessel operations</b>	131,458	122,123	401,390
<b>OTHER ITEMS</b>			
Interest expense	(33,319)	(30,672)	(71,016)
Interest income	8,426	4,883	16,656
Equity income from joint ventures	2,884	3,288	5,711
Foreign exchange gain (loss) (note 7)	21,665	(5,407)	47,539
Other - net (note 12)	(26,545)	4,328	(16,665)
<b>Total other items</b>	(26,889)	(23,580)	(17,775)
<b>Net income (note 13)</b>	104,569	98,543	383,615
<b>Earnings per common share (note 15)</b>			
- Basic	1.31	1.19	4.72
- Diluted	1.23	1.13	4.42
<b>Weighted-average number of common shares</b>			
- Basic	79,953,740	82,603,379	81,279,750
- Diluted	85,314,815	87,340,951	86,741,711

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS  
(in thousands of U.S. dollars)

	<b>As at June 30, 2005 \$</b>
<b>ASSETS</b>	
<b>Current</b>	
Cash and cash equivalents (note 7)	246,832
Restricted cash (note 8)	90,781
Accounts receivable	109,767
Vessels held for sale (note 11)	-
Net investment in direct financing leases - current	18,338
Prepaid expenses and other assets	65,522
<b>Total current assets</b>	<b>531,240</b>
Restricted cash (note 8)	303,800
<b>Vessels and equipment (note 7)</b>	
At cost, less accumulated depreciation of \$749,545 (December 31, 2004 - \$960,597)	2,517,461
Vessels under capital leases, at cost, less accumulated	

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depreciation of \$22,838 (December 31, 2004 - \$11,047) (note 8)	654,154
Advances on newbuilding contracts (note 10)	259,656
-----	
<b>Total vessels and equipment</b>	<b>3,431,271</b>
-----	
Net investment in direct financing leases	96,527
Investment in joint ventures	60,546
Other assets	69,066
Intangible assets - net (note 5)	264,417
Goodwill (note 5)	171,898
-----	
	4,928,765
=====	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
<b>Current</b>	
Accounts payable	47,725
Accrued liabilities	113,411
Current portion of long-term debt (note 7)	183,549
Current obligation under capital leases (note 8)	81,979
-----	
<b>Total current liabilities</b>	<b>426,664</b>
=====	
Long-term debt (note 7)	1,321,151
Obligation under capital leases (note 8)	514,839
Other long-term liabilities	201,374
-----	
<b>Total liabilities</b>	<b>2,464,028</b>
-----	
Commitments and contingencies (notes 8, 10 and 14)	
	161,018
<b>Minority interest</b>	
<b>Stockholders' equity</b>	
Capital stock (note 9)	513,149
Retained earnings	1,918,175
Accumulated other comprehensive loss (note 14)	(127,605)
-----	
<b>Total stockholders' equity</b>	<b>2,303,719</b>
-----	
<b>Total liabilities and stockholders' equity</b>	<b>4,928,765</b>
=====	

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands of U.S. dollars)

Six Months  
2005  
\$

Cash and cash equivalents provided by (used for)

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**OPERATING ACTIVITIES**

Net income	383,615
Non-cash items:	
Depreciation and amortization	104,389
Writedown / (gain) on sale of vessels and equipment	(117,747)
Loss on repurchase of bonds	8,775
Gain on sale of marketable securities	-
Equity income (net of dividends received: June 30, 2005 - \$5,893; June 30, 2004 - \$6,871)	183
Income taxes	(9,872)
Loss from settlement of interest rate swaps	7,820
Writeoff of capitalized loan costs	7,462
Unrealized foreign exchange (gain) loss and other - net	(62,926)
Change in non-cash working capital items related to operating activities	33,528
Expenditures for drydocking	(8,437)

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**Net operating cash flow** 346,790

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**FINANCING ACTIVITIES**

Proceeds from long-term debt	1,224,900
Capitalized loan costs	(2,066)
Scheduled repayments of long-term debt	(55,046)
Prepayments of long-term debt	(1,732,460)
Repayments of capital lease obligations	(3,940)
Decrease (increase) in restricted cash	16,599
Settlement of interest rate swaps	(143,295)
Net proceeds from sale of 22.3% of Teekay LNG Partners L.P. (note 3)	139,395
Issuance of common stock upon exercise of stock options	12,109
Repurchase of common stock (note 9)	(223,482)
Cash dividends paid	(22,534)

---

**Net financing cash flow** (789,820)

---

**INVESTING ACTIVITIES**

Expenditures for vessels and equipment	(160,729)
Proceeds from sale of vessels and equipment	433,748
Proceeds from sale of marketable securities	-
Purchase of Teekay Shipping Spain S.L. (note 4)	-
Net investment in direct financing leases	(5,915)
Other	(4,279)

---

**Net investing cash flow** 262,825

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**Decrease in cash and cash equivalents** (180,205)

Cash and cash equivalents, beginning of the period 427,037

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**Cash and cash equivalents, end of the period** 246,832

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

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TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. They include the accounts of Teekay Shipping Corporation (or *Teekay*), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly owned or controlled subsidiaries (or the *Company*). Certain information and footnote disclosures required by generally accepted accounting principles for complete annual financial statements have been omitted and, therefore, it is suggested that these interim financial statements be read in conjunction with the Company's audited financial statements for the year ended December 31, 2004. In the opinion of management, these statements reflect all adjustments (consisting only of normal recurring accruals) necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, and cash flows for the interim periods presented. The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of those for a full fiscal year.

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period.

2. Segment Reporting

The Company has three reportable segments: its spot tanker segment, its fixed-rate tanker segment, and its fixed-rate liquefied natural gas (or *LNG*) segment. The Company's spot tanker segment consists of conventional crude oil tankers and product carriers operating in the spot market or subject to time charters or contracts of affreightment priced on a spot-market basis or on short-term, fixed-rate contracts. The Company considers contracts that have an original term of less than three years in duration to be short-term. The Company's fixed-rate tanker segment consists of shuttle tankers, floating storage and offtake vessels, liquid petroleum gas carriers and conventional crude oil and product tankers subject to long-term, fixed-rate time-charter contracts or contracts of affreightment. The Company's fixed-rate LNG segment consists of LNG carriers subject to long-term, fixed-rate time-charter contracts. The Company had no LNG operations prior to its acquisition of Teekay Shipping Spain S.L. (or *Teekay Spain*) on April 30, 2004 (see Note 4). Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Company's consolidated financial statements.

The following tables present results for these segments for the three and six months ended June 30, 2005 and 2004.

	Spot Tanker Segment \$	Fixed-Rate Tanker Segment \$	Fixed-Rate LNG Segment \$
Three-months ended June 30, 2005			
Voyage revenues - external.....	266,566	188,796	24,778
Voyage expenses.....	81,354	16,940	2
Vessel operating expenses.....	16,068	31,453	3,820
Time-charter hire expense.....	72,280	52,174	-
Depreciation and amortization.....	12,684	30,099	7,523
General and administrative(1).....	23,310	13,607	3,262
Writedown / (gain) on sale of vessels and equipment.....	(26,147)	10,253	-
Income from vessel operations(2).....	87,017	34,270	10,171
Voyage revenues - intersegment.....	-	1,158	-
Total assets as at June 30, 2005.....	898,422	2,020,002	1,506,716

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TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

	<b>Spot Tanker Segment \$</b>	<b>Fixed-Rate Tanker Segment \$</b>	<b>Fixed-Rate LNG Segment \$</b>
Three months ended June 30, 2004			
Voyage revenues - external.....	290,688	178,935	7,999
Voyage expenses.....	87,723	20,870	115
Vessel operating expenses.....	23,752	28,376	1,637
Time-charter hire expense.....	60,369	46,205	-
Depreciation and amortization.....	25,976	32,493	2,377
General and administrative (1).....	12,081	12,994	741
Writedown / (gain) on sale of vessels and equipment.....	(450)	-	-
Restructuring charge.....	240	-	-
Income from vessel operations.....	80,997	37,997	3,129
Voyage revenues - intersegment.....	-	1,146	-
Total assets as at June 30, 2004.....	1,263,773	2,103,898	1,139,314
	<b>Spot Tanker Segment \$</b>	<b>Fixed-Rate Tanker Segment \$</b>	<b>Fixed-Rate LNG Segment \$</b>
Six months ended June 30, 2005			
Voyage revenues - external.....	587,550	360,958	49,043
Voyage expenses.....	165,550	31,225	50
Vessel operating expenses.....	33,875	63,743	8,163
Time-charter hire expense.....	138,496	94,540	-
Depreciation and amortization.....	28,550	60,794	15,045
General and administrative (1).....	41,635	26,040	6,202
Writedown / (gain) on sale of vessels and equipment.....	(123,116)	5,369	-
Income from vessel operations(2)	302,560	79,247	19,583
Voyage revenues - intersegment.....	-	2,291	-
	<b>Spot Tanker Segment \$</b>	<b>Fixed-Rate Tanker Segment \$</b>	<b>Fixed-Rate LNG Segment \$</b>
Six months ended June 30, 2004			
Voyage revenues - external.....	666,544	354,530	7,999
Voyage expenses.....	175,498	36,979	115
Vessel operating expenses.....	47,205	53,835	1,637
Time-charter hire expense.....	119,924	95,315	-
Depreciation and amortization.....	50,862	61,221	2,377
General and administrative (1).....	25,099	27,601	741



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Writedown / (gain) on sale of vessels and equipment.....	(1,053)	-	-
Restructuring charge.....	1,002	-	-
	-----	-----	-----
Income from vessel operations.....	248,007	79,579	3,129
	=====	=====	=====
Voyage revenues - intersegment.....	-	2,291	-

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of corporate resources).
- (2) The Company's subsidiary, Teekay LNG Partners L.P., contributed \$2.1 million and \$7.1 million, respectively, of income from vessel operations to the Company's fixed-rate tanker segment and fixed-rate LNG segment for the period from May 10, 2005 (the date of the subsidiary's initial public offering) to June 30, 2005.

**TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)**

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

	<b>As at June 30, 2005 \$</b>
	-----
Total assets of all segments.....	4,425,140
Cash and restricted cash.....	252,400
Accounts receivable and other assets.....	251,225
	-----
Consolidated total assets .....	4,928,765
	=====

**3. Initial Public Offering of Teekay LNG Partners L.P.**

On May 10, 2005, the Company's subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) completed its initial public offering (or the *Offering*) of 6.9 million common units at a price of \$22.00 per unit. This included 0.9 million common units sold to the underwriters in connection with the exercise of their over-allotment option. As a result of this transaction, the Company recorded a \$12.1 million reduction to stockholders' equity. The Company accounts for gains or losses from the issuance of shares by its subsidiaries as an adjustment to stockholders' equity. The proceeds received from the Offering and the use of those proceeds are summarized as follows:

**Proceeds received:**

Sale of 6,900,000 common units at \$22.00 per unit.....	
---	--

**Use of proceeds from sale of common units:**

Underwriting and structuring fees.....	
Professional fees and other offering expenses.....	
Repayment of loans from Teekay Shipping Corporation.....	
Working capital.....	

Teekay LNG is a Marshall Islands limited partnership formed by the Company as part of its strategy to expand its operations in the LNG shipping sector. Teekay LNG will provide LNG and crude oil marine transportation service under long-term, fixed-rate contracts with major energy and utility companies through its fleet of LNG carriers and Suezmax class crude oil tankers, primarily consisting of the vessels obtained through its acquisition of Teekay Spain in April 2004.

Immediately preceding the Offering, the Company entered into an omnibus agreement with Teekay LNG governing, among other things, when the Company and Teekay LNG may compete with each other and certain rights of first offering on LNG carriers and Suezmax tankers. Under this agreement, Teekay LNG has granted to the Company a 30-day right of first offer on any proposed (a) sale, transfer or other disposition of any of the Company's Suezmax tankers or (b) re-chartering of any of the Company's Suezmax tankers pursuant to a time-charter with a term of at least three years if the existing charter expires or is terminated early. Likewise, the Company has granted a similar right of first offer to Teekay LNG for any LNG carriers it might own.

**TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)**

**4. Acquisition of Teekay Shipping Spain S.L.**

On April 30, 2004, the Company acquired all of the outstanding shares of Naviera F. Tapias S.A. and its subsidiaries and renamed it Teekay Shipping Spain S.L. (or *Teekay Spain*). Teekay Spain engages in the marine transportation of crude oil and LNG. The Company acquired Teekay Spain for \$298.2 million in cash, plus the assumption of debt and remaining newbuilding commitments. Management believes the acquisition of the Teekay Spain business has provided the Company with a strategic platform from which to expand its presence in the LNG shipping sector and immediate access to reputable LNG operations. The Company anticipates this will benefit it when bidding on future LNG projects. These benefits contributed to the recognition of goodwill. In the transaction, Teekay also entered into an agreement with an entity controlled by the former controlling shareholder of Teekay Spain to establish a 50/50 joint venture that will pursue new business in the oil and gas shipping sectors that relate only to the Spanish market or are led by Spanish entities or entities controlled by a Spanish company. Teekay Spain's results of operations have been consolidated with the Company's results commencing May 1, 2004.

As at June 30, 2005, the Company's LNG fleet consisted of seven LNG vessels, including three newbuildings. All seven vessels were contracted under long-term, fixed-rate time charters to major energy companies. As at June 30, 2005, Teekay Spain's conventional crude oil tanker fleet consisted of five Suezmax tankers, including one newbuilding, which was subsequently delivered in July 2005. All five Suezmax tankers are contracted under long-term, fixed-rate time charters with a major Spanish oil company.

The following table summarizes the fair value of the assets acquired and liabilities assumed by the Company at April 30, 2004, the date of the Teekay Spain acquisition.

**ASSETS**

Cash, cash equivalents and short-term restricted cash.....	
Other current assets.....	
Vessels and equipment.....	
Restricted cash - long term.....	
Other assets - long-term.....	
Intangible assets subject to amortization:	
Time-charter contracts (weighted-average useful life of 19.2 years) .....	

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Goodwill (\$3.6 million fixed-rate tanker segment and \$35.7 million fixed-rate LNG segment) .....

**Total assets acquired**.....

**LIABILITIES**

Current liabilities.....

Long-term debt .....

Obligations under capital leases.....

Other long-term liabilities.....

**Total liabilities assumed**.....

**Net assets acquired (cash consideration)** .....

**TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

The following table shows comparative summarized consolidated pro forma financial information for the Company for the six months ended June 30, 2004, giving effect to the acquisition of 100% of the outstanding shares in Teekay Spain as if it had taken place on January 1, 2004:

Voyage revenues.....	
Net income (1).....	
Earnings per share	
- Basic.....	
- Diluted.....	

(1) The results of Teekay Spain for the six months ended June 30, 2004 included foreign exchange losses of approximately \$11.1 million. Substantially all of these foreign exchange losses were

**5. Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill for the six months ended June 30, 2005 for the Company's reporting segments, are as follows:

	Spot Tanker Segment \$	Fixed-Rate Tanker Segment \$	Fixed-Rate LNG Segment \$	
Balance as of December 31, 2004.....	-	132,223	35,631	1,
Goodwill acquired.....	-	2,308	-	
Balance as of June 30, 2005.....	-	134,531	35,631	1,

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As at June 30, 2005, intangible assets consisted of:

	Weighted-Average Amortization Period (years)	Gross Carrying Amount \$	Accumulate Amortizati \$
Contracts of affreightment.....	10.2	124,250	38,759
Time-charter contracts.....	19.2	182,552	8,760
Intellectual property.....	7.0	7,701	2,567
	15.4	314,503	50,086

Aggregate amortization expense of intangible assets for the three and six months ended June 30, 2005 was approximately \$6.8 million (\$6.5 million 2004) and \$13.1 million (\$11.4 million 2004), respectively. Amortization of intangible assets for the next five fiscal years is expected to be \$12.1 million (remainder of 2005), \$22.3 million (2006), \$21.3 million (2007), \$20.3 million (2008), \$19.3 million (2009) and \$169.1 million (thereafter).

**6. Cash Flows**

Cash interest paid by the Company during the six months ended June 30, 2005 and 2004 totaled approximately \$70.1 million and \$50.7 million, respectively.

**TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

**7. Long-Term Debt**

	June 30, 2005 \$
Revolving Credit Facilities.....	620,000
First Preferred Ship Mortgage Notes (8.32%).....	-
Premium Equity Participating Security Units (7.25%) due May 18, 2006.....	143,750
Senior Notes (8.875%) due July 15, 2011.....	294,565
U.S. Dollar-denominated Term Loans due through 2017.....	57,212
EURO-denominated Term Loans due through 2023.....	389,173
	1,504,700
Less current portion.....	183,549
Total.....	1,321,151

As at June 30, 2005, the Company had five long-term revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for borrowings of up to \$1,785.0 million, of which \$1,165.0 million was undrawn. The amount available under the Revolvers reduces by \$73.0 million (2005), \$146.9 million (2006), \$148.2 million (2007), \$363.4 million (2008), \$189.7 million (2009) and \$863.8 million (thereafter). All of the Revolvers are collateralized by first-priority mortgages granted on 49 of the Company's vessels, together

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with other related collateral, and include a guarantee from Teekay for all amounts outstanding under the Revolvers.

On February 1, 2005, the Company repaid \$45.0 million of the 8.32% First Preferred Ship Mortgage Notes (or the *8.32% Notes*). On March 30, 2005, the Company effectively repaid the remaining \$5.9 million outstanding by placing an amount on deposit with the trustee, The Bank of New York, that satisfies the outstanding principal and accrued interest on the remaining two semi-annual repayment dates. As a result of these transactions, the 8.32% Notes are no longer collateralized by first-preferred mortgages on any of the Company's vessels and they are not guaranteed by any of the Company's subsidiaries.

The 7.25% Premium Equity Participating Security Units due May 18, 2006 (or the *Equity Units*) are unsecured and subordinated to all of the Company's senior debt. The Equity Units are not guaranteed by any of the Company's subsidiaries and effectively rank behind all existing and future secured debt of the Company and all existing and future debt of the Company's subsidiaries. Each Equity Unit includes (a) a forward contract that requires the holder to purchase for \$25 a specified fraction of a share of the Company's common stock on February 16, 2006 and (b) a \$25 principal amount, subordinated note due May 18, 2006. The forward contracts provide for contract adjustment payments of 1.25% annually and the notes bear interest at 6.0% annually. Upon settlement on February 16, 2006 of the \$5.75 million forward contracts included in the Equity Units, the Company will issue between 6,534,300 and 7,982,150 shares of its common stock (depending on the average closing price of the common stock for the 20-trading day period ending on February 13, 2006).

The 8.875% Senior Notes due July 15, 2011 (or the *8.875% Notes*) rank equally in right of payment with all of Teekay's existing and future senior unsecured debt and senior to Teekay's existing and future subordinated debt. During the three months ended June 30, 2005, the Company repurchased a principal amount of \$56.8 million of the 8.875% Notes (See also Note 12). The 8.875% 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, secured and unsecured, of its subsidiaries.

### TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

#### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

The Company has several term loans outstanding, which, as at June 30, 2005, totaled \$57.2 million (U.S. Dollar-denominated) and 321.7 million Euros (\$389.2 million). As part of certain capital leases, the Company has two long-term time-charter contracts that are denominated in Euros, the funds from which will be used to repay the associated Euro-denominated term loans. Interest payments on the U.S. Dollar denominated term loans are based on LIBOR plus a margin. Interest payments on the EURO-denominated term loans are based on EURIBOR plus a margin. At June 30, 2005, the margins ranged between 0.50% and 1.30%. The term loans reduce in monthly or quarterly payments with varying maturities through 2023. All term loans of the Company are collateralized by first-preferred mortgages on the vessels to which the loans relate, together with certain other collateral and guarantees from Teekay. Certain term loans of Teekay Spain totaling \$403.6 million are not guaranteed by Teekay.

All Euro-denominated term loans are revalued at the end of each period using the then prevailing Euro/U.S. Dollar exchange rate. Due substantially to this revaluation, the Company recognized foreign exchange gains during the three and six months ended June 30, 2005, of \$21.7 million (\$5.4 million loss 2004) and \$47.5 million (\$6.3 million loss 2004), respectively.

Certain loan agreements require that a minimum level of free cash be maintained. As at June 30, 2005, this amount was \$100.0 million. Certain of the loan agreements also require that the Company maintain a minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity. As at June 30, 2005, this amount was \$157.6 million.

#### 8. Capital Leases and Restricted Cash

##### *Capital Leases*

*Aframax and Suezmax Tankers.* As at June 30, 2005, the Company was party to capital leases on one Aframax tanker and four Suezmax tankers. Under the terms of the lease arrangements, which include the Company's contractual right to full operation of the vessels pursuant to bareboat charters, the Company is required to purchase these vessels at the end of their respective lease terms for a fixed price. As at June 30, 2005, the weighted-average interest rate implicit in these capital leases was 7.8%. As at June 30, 2005, the remaining commitments under these capital leases, including the purchase obligations, approximated \$270.0 million, including imputed interest of \$50.8 million, repayable as follows:

<u>Year</u>	
2005	.....
2006	.....
2007	.....
2008	.....
2009	.....
Thereafter	.....

**TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)**

*LNG Carriers.* As at June 30, 2005, the Company was a party to capital leases on two LNG carriers which are structured as Spanish tax leases. Under the terms of the Spanish tax leases, the Company will purchase these vessels at the end of their respective lease terms in 2006 and 2011, both of which purchase obligations have been fully funded with restricted cash deposits described below. As at June 30, 2005, the weighted-average interest rate implicit in the Spanish tax leases was 5.7%. As at June 30, 2005, the commitments under these capital leases, including the purchase obligations, approximated 365.3 million Euros (\$441.9 million), including imputed interest of 53.2 million Euros (\$64.3 million), repayable as follows:

<u>Year</u>		<u>Comm</u>
2005	.....	77.1 million.Euro
2006	.....	123.2 million.Euro
2007	.....	23.3 million.Euro
2008	.....	24.4 million.Euro
2009	.....	25.6 million.Euro
Thereafter	.....	91.7 million.Euro

***Restricted Cash***

Under the terms of the Spanish tax leases for the two LNG carriers, the Company is required to have on deposit with financial institutions an amount of cash that, together with interest on the deposit, will equal the remaining amounts owing under the leases, including the obligations to purchase the LNG carriers at the end of the lease periods. This amount was 317.8 million Euros (\$384.4 million) as at June 30, 2005 and 309.5 million Euros (\$421.6 million) at December 31, 2004. These cash deposits are restricted to being used for capital lease payments and have been fully funded with term loans and a Spanish government grant. The interest rates earned on the deposits approximate the interest rates implicit in the Spanish tax leases. As at June 30, 2005 and December 31, 2004, the weighted-average interest rate earned on the deposits was 5.3%.

The Company also maintains restricted cash deposits relating to certain term loans and other obligations. As at June 30, 2005 and December 31, 2004, these amounts were \$10.2 million and \$27.2 million, respectively.

**9. Capital Stock**

The authorized capital stock of Teekay at June 30, 2005 was 25,000,000 shares of Preferred Stock, with a par value of \$1 per share, and 725,000,000 shares of common stock, with a par value of \$0.001 per share. As at June 30, 2005, Teekay had 78,429,355 shares of common stock and no shares of Preferred Stock issued and outstanding. On May 17, 2004, Teekay effected a two-for-one stock split relating to its common stock. All earnings per share and share capital amounts disclosed in these financial statements give effect to this stock split retroactively.

In April 2005, Teekay announced that its Board of Directors had authorized the repurchase program of up to \$225 million of shares of its common stock in the open market. As at June 30, 2005 Teekay had repurchased 3,604,100 shares of common stock subsequent to such authorization at an average price of \$43.25 per share. (See also note 17(a))

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In November 2004, Teekay announced that its Board of Directors had authorized the repurchase of up to 3,000,000 shares of its common stock in the open market. As at December 31, 2004, Teekay had repurchased 1,400,200 shares of common stock subsequent to such authorization at an average price of \$43.73 per share. In January 2005, Teekay repurchased an additional 1,599,800 shares at an average price of \$42.27, for a total of 3,000,000 shares repurchased at an average price of \$42.95 per share.

### TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

#### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

As at June 30, 2005, the Company had reserved pursuant to its 1995 Stock Option Plan and 2003 Equity Incentive Plan (collectively referred to as the *Plans*) 6,032,562 shares of common stock for issuance upon exercise of options or equity awards granted or to be granted. As at June 30, 2005, the number of options available for issuance under the Plans was 1,418,882. As at June 30, 2005, options to purchase a total of 4,613,680 shares of Teekay's common stock were outstanding, of which 2,816,358 options were then exercisable at prices ranging from \$8.44 to \$34.37 per share, with a weighted-average exercise price of \$18.75 per share. All outstanding options have exercise prices ranging from \$8.44 to \$46.80 per share and a weighted-average exercise price of \$24.37 per share. All outstanding options expire between July 19, 2005 and June 2, 2015, ten years after the date of each respective grant.

Under Statement of Financial Accounting Standards No. 123 (or *SFAS 123*), Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, disclosures of stock-based compensation arrangements with employees are required and companies are encouraged (but not required) to record compensation costs associated with employee stock option awards, based on estimated fair values at the grant dates. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 (or *APB 25*), Accounting for Stock Issued to Employees. As the exercise price of the Company's employee stock options equals the market price of underlying stock on the date of grant, no compensation expense has been recognized under APB 25. The following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provisions of SFAS 123, as amended, to stock-based employee compensation.

	Three Months Ended June 30,		Si
	2005	2004	200
	\$	\$	\$
Net income - as reported.....	104,569	98,543	383
Less: Total stock-based compensation expense.....	2,015	2,185	4
Net income - pro forma.....	102,554	96,358	379
Basic earnings per common share:			
- As reported.....	1.31	1.19	4
- Pro forma.....	1.28	1.17	4
Diluted earnings per common share:			
- As reported.....	1.23	1.13	4
- Pro forma.....	1.20	1.10	4

For the purpose of the above pro forma calculation, the fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the options granted: expected volatility of 35% in 2005 and 2004, expected life of five years, dividend yield of 1.5% in 2005 and 2.0% in 2004, and risk-free interest rate of 4.1% in 2005 and 2.7% in 2004.

As at June 30, 2005, the Company had 656,698 restricted stock units outstanding that were awarded in March 2005 as incentive based compensation. Each restricted stock unit is equal in value to one share of the Company's common stock and reinvested dividends from the date of the grant to the vesting of the restricted stock unit. Based on the June 30, 2005 share price of \$43.90 per share, the restricted stock units outstanding at June 30, 2005 had a notional value of \$28.8 million. The restricted stock units vest in three equal amounts on March

31, 2006, March 31, 2007 and November 30, 2007. Upon vesting, 127,191 of the restricted stock units will be paid to each grantee in the form of cash, and 529,507 of the restricted stock units will be paid to each grantee in the form of cash or shares of Teekay's common stock, at the election of the grantee. Shares of Teekay's common stock issued as payment of the restricted stock units will be purchased in the open market by the Company. During the three and six months ended June 30, 2005, the Company accrued \$0.9 million and \$5.1 million, respectively, related to restricted stock units, which is primarily included in general and administrative expenses.

## TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

#### 10. Commitments and Contingencies

##### a) Vessels Under Construction

As at June 30, 2005, the Company was committed to the construction of five Aframax tankers, one Suezmax tanker, three product tankers, and three LNG carriers scheduled for delivery between July 2005 and March 2008, at a total cost of approximately \$916.5 million, excluding capitalized interest. As at June 30, 2005, payments made towards these commitments totaled \$231.8 million, excluding \$27.9 million of capitalized interest and other miscellaneous construction costs. Long-term financing arrangements existed for \$673.7 million of the unpaid cost of these vessels. The Company intends to finance the remaining unpaid amount of \$11.0 million through incremental debt or surplus cash balances, or a combination thereof. As at June 30, 2005, the remaining payments required to be made under these newbuilding contracts were: \$237.0 million in 2005, \$230.2 million in 2006, \$166.7 million in 2007, and \$50.7 million in 2008. Two of the Aframax tankers will be subject to 10-year time charters to Skaugen PetroTrans Inc., a joint venture of the Company, upon delivery in 2008. The three LNG carriers will be subject to 20-year, fixed-rate time charters to Ras Laffan Natural Gas Co. Limited (II), a joint venture between Qatar Gas Transport Company Ltd. and ExxonMobil RasGas Inc., a subsidiary of ExxonMobil Corporation.

##### b) Joint Ventures

Under the terms of a joint venture agreement with an entity controlled by the former controlling shareholder of Teekay Spain, Teekay will make capital contributions to the joint venture company of \$50.0 million in share premium. If Teekay has not contributed the \$50.0 million equity prior to April 30, 2007, it will be required to pay the other partner up to \$25.0 million calculated by a pre-determined formula based on the occurrence of certain future events.

Teekay and certain of its subsidiaries of Teekay have guaranteed their share of the outstanding mortgage debt in four 50%-owned joint venture companies. As at June 30, 2005, Teekay and these subsidiaries had guaranteed \$96.8 million, or 50% of the total \$193.7 million, in outstanding mortgage debt of the joint venture companies. These joint venture companies own an aggregate of four shuttle tankers.

##### c) Long-Term Incentive Program

In 2005, the Company adopted the Vision Incentive Plan (or *Plan*) to reward exceptional corporate performance and shareholder returns. This Plan will result in an award pool for senior management based on the following two measures: (a) economic profit from 2005 to 2010 (or the *Economic Profit*); and (b) market value added from 2001 to 2010 (or the *Market Value Added*). The Plan terminates on December 31, 2010. Under the Plan, the Economic Profit is the difference between the Company's annual return on invested capital (or *ROIC*) and its weighted-average cost of capital (or *WACC*) multiplied by its average invested capital employed during the year, and Market Value Added is the amount by which the average market value of the Company for the preceding 18 months exceeds the average book value of the Company for the same period.

In 2008, if the Plan's award pool has a cumulative positive balance based on the Economic Profit contributions for the preceding three years, then an interim distribution may be made to participants in an amount not greater than half of the award pool. In 2011, the balance of the Plan award pool will be distributed to the participants. Fifty percent of any distribution from the award pool, in 2008 and in 2011, must be paid in a form that is equity-based, with vesting on half of this percentage deferred for one year and vesting on the remaining half of this percentage deferred for two years.



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TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

The Economic Profit contributions added to the award pool each quarter are accrued when incurred. During the three and six months ended June 30, 2005, the Company accrued \$2.5 million and \$6.9 million, respectively, of Economic Profit contributions. The estimated Market Value Added contributions are accrued on a straight-line basis from the date of plan approval, which was March 9, 2005, until December 31, 2010. Any subsequent increases or decreases to the Market Value Added contribution are accrued on a straight-line basis until December 31, 2010. During the three and six months ended June 30, 2005, the Company accrued \$2.6 million and \$3.4 million, respectively, of Market Value Added contributions. The accruals for the Economic Profit contributions and the Market Value Added contributions are included in general and administrative expenses.

**d) Other**

The Company has been awarded a contract by a consortium of major oil companies to construct and install on six of its shuttle tankers volatile organic compound emissions plants, which reduce emissions during cargo operations. These plants are leased to the consortium of major oil companies. The construction and installation of these plants are expected to be completed by the end of 2005 at a total cost of approximately \$99.4 million. As at June 30, 2005, the Company had made payments towards these commitments of approximately \$71.1 million. As at June 30, 2005, the remaining payments required to be made towards these commitments were \$28.3 million in 2005.

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.

**11. Writedown and Gain on Sale of Vessels and Equipment**

During the second quarter of 2005, the Company completed the sale of one Suezmax tanker built in 1990 and three Aframax tankers built between 1988 and 1989, all of which were presented as held for sale at March 31, 2005. The results for the three months ended June 30, 2005 include gains from the sale of these vessels totaling \$25.4 million.

In March 2005, the Company sold and leased back a 1991-built shuttle tanker that is now being accounted for as an operating lease. The sale generated a \$2.1 million gain, which has been deferred and is being amortized over the 6.5 year term of the lease. The Company is also amortizing a deferred gain on the sale and lease back of three vessels sold in December 2003. The results for the three and six months ended June 30, 2005 include \$0.7 million and \$1.3 million, respectively, of amortization of these deferred gains.

The results for the six months ended June 30, 2005 include \$126.7 million of gains on the sale of 11 Aframax tankers built between 1988 and 1991, one shuttle tanker built in 1986, one Suezmax tanker built in 1990 and one newbuilding Suezmax tanker which was sold concurrently upon its delivery in March 2005.

In June 2005, the Company recorded a writedown of \$10.2 million of certain offshore equipment due to a lower estimated net realizable value arising from the early termination of a contract.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

**12. Other net**

Three Months Ended		Six
June 30,	June 30,	June 30,

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	2005 \$	2004 \$	2005 \$
Loss on bond redemption (note 7).....	(8,775)	-	(8,775)
Loss from settlement of interest rate swaps (note 14).....	(7,820)	-	(7,820)
Writeoff of capitalized loan costs.....	(7,462)	-	(7,462)
Minority interest expense.....	(6,482)	(624)	(7,075)
Income tax recovery (expense).....	555	(6,086)	9,872
Dividend income.....	-	5,663	-
Gain on sale of marketable securities.....	-	2,232	-
Miscellaneous.....	3,439	3,143	4,595
Other - net.....	(26,545)	4,328	(16,665)

**13. Comprehensive Income**

	Three Months Ended June 30, 2005 \$	June 30, 2004 \$	Six Months June 30, 2005 \$
Net income.....	104,569	98,543	383,615
Other comprehensive income:			
Unrealized gain (loss) on marketable securities.....	-	(31,698)	-
Reclassification adjustment for gain on sale of marketable securities included in net income.....	-	(1,151)	-
Unrealized loss on derivative instruments.....	(101,412)	(16,338)	(86,176)
Reclassification adjustment for loss on derivative instruments included in net income.....	9,928	7,365	14,704
Comprehensive income.....	13,085	56,721	312,143

**14. Derivative Instruments and Hedging Activities**

The Company uses derivatives only for hedging purposes. The following summarizes the Company's risk strategies with respect to market risk from foreign currency fluctuations, changes in interest rates, spot market rates for vessels, bunker fuel prices.

The Company hedges portions of its forecasted expenditures denominated in foreign currencies with foreign exchange forward contracts. As at June 30, 2005, the Company was committed to foreign exchange contracts for the forward purchase of approximately Norwegian Kroner 422.3 million and Canadian Dollars 35.0 million for U.S. Dollars at an average rate of Norwegian Kroner 6.84 per U.S. Dollar and Canadian Dollar 1.28 per U.S. Dollar, respectively. The foreign exchange forward contracts mature as follows: \$52.9 million in 2005; and \$36.1 million in 2006.

**TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES**

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)**

As at June 30, 2005, the Company was committed to the following interest rate swap agreements related to its LIBOR and EURIBOR based debt, whereby certain of the Company's floating-rate debt was swapped with fixed-rate obligations:

	Interest Rate Index	Principal Amount \$	Fair Value/ Carrying Amount of Liability \$	Weighted Average Remaining Term (years)
U.S. Dollar-denominated interest rate swaps.....	LIBOR	700,000	1,229	3
U.S. Dollar-denominated interest rate swaps (2) .....	LIBOR	1,184,000	69,212	11
Euro-denominated interest rate swaps (3) (4) .....	EURIBOR	389,173	14,985	19

- (1) Excludes the margin the Company pays on its variable-rate debt, which as of June 30, 2005 ranged from 0.5% to 1.3%.
- (2) Inception dates of swaps are 2006 (\$678 million), 2007 (\$256 million) and 2009 (\$250 million).
- (3) Principal amount reduces monthly to 70.1 million Euros (\$84.8 million) by the maturity dates of the swap agreements.
- (4) Principal amount is the U.S. Dollar equivalent of 321.7 million Euros.

During April 2005, the Company repaid term loans of \$337.3 million on two LNG carriers and settled the related interest rate swaps. A loss of \$7.8 million was recognized as a result of these interest rate swap settlements (See also Note 12). During April 2005, the Company also settled interest rate swaps associated with 322.8 million Euros (\$390.5 million) of term loans and entered into new swaps of the same amount with a lower fixed interest rate. A loss of 39.2 million Euros (\$50.4 million) has been deferred in accumulated other comprehensive income and will be recognized over the remaining term of the term loans. The cost to settle all of these interest rate swaps was \$143.3 million.

The Company hedges certain of its voyage revenues through the use of forward freight agreements. Forward freight agreements involve contracts to provide a fixed number of theoretical voyages at fixed-rates, thus hedging a portion of the Company's exposure to the spot charter market. As at June 30, 2005, the Company was committed to forward freight agreements totaling 2.2 million metric tonnes with an aggregate notional principal amount of \$17.9 million. The forward freight agreements expire between July and December 2005.

The Company hedges a portion of its bunker fuel expenditures with bunker fuel swap contracts. As at June 30, 2005, the Company was committed to contracts totalling 9,150 metric tonnes with a weighted-average price of \$162.09 per tonne. The fuel swap contracts expire between July and December 2005.

The Company is exposed to credit loss in the event of non-performance by the counter parties to the foreign exchange forward contracts, interest rate swap agreements, forward freight agreements and bunker fuel swap contracts,; however, the Company does not anticipate non-performance by any of the counter parties.

During the three and six months ended June 30, 2005, the Company recognized a net loss of \$0.9 million (\$0.9 million - 2004) and \$1.0 million (\$2.0 million - 2004), respectively, relating to the ineffective portion of its interest rate swap agreements and foreign currency forward contracts. The ineffective portion of these derivative instruments is presented as interest expense and other (loss) income, respectively.

As at June 30, 2005 and December 31, 2004, the Company's accumulated other comprehensive loss consisted of unrealized losses on derivative instruments totaling \$127.6 million and \$56.1 million, respectively.

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TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

15. Earnings Per Share

	Three Months Ended		Si
	June 30, 2005 \$	June 30, 2004 \$	June 3 2005 \$
Net income available for common stockholders.....	104,569	98,543	383,61
Weighted-average number of common shares.....	79,953,740	82,603,379	81,279,
Dilutive effect of employee stock options and restricted stock awards.....	2,122,340	2,461,857	2,158,
.....			
Dilutive effect of Equity Units.....	3,238,735	2,275,715	3,303,
Common stock and common stock equivalents.....	85,314,815	87,340,951	86,741,
Earnings per common share:			
- Basic.....	1.31	1.19	4.
- Diluted.....	1.23	1.13	4.

For both the three and six months ended June 30, 2005, the anti-dilutive effect of 0.6 million shares attributable to outstanding stock options were excluded from the calculations of diluted earnings per share. There was a nominal amount of shares attributable to outstanding stock options that were anti-dilutive for each of the three and six months ended June 30, 2004, which were excluded from the calculation of diluted earnings per share.

16. Recent Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (or *FASB*) issued FASB Statement No. 123(R) (or *SFAS 123(R)*), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. SFAS 123(R) supersedes APB 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an acceptable alternative.

SFAS 123(R) must be adopted for all fiscal years beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company expects to adopt SFAS 123(R) on January 1, 2006.

SFAS 123(R) permits public companies to adopt its requirements using one of the following two methods:

- a) A modified prospective method in which compensation cost is recognized beginning with the effective date based on (a) the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date; or
- b) A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

The Company plans to adopt SFAS 123(R) using the modified prospective method. The adoption of SFAS 123(R)'s fair value method will have a significant impact on the Company's results of operations, although it will not affect the Company's overall financial position. The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 9 of these financial statements.

**17. Subsequent Events**

- a) In July 2005, the Company announced that its Board of Directors has authorized a share repurchase program of up to \$250 million. This repurchase program follows the two previous share repurchase programs announced in November 2004 and April 2005. See also Note 9.
- b) In July 2005, the Company announced that it had been awarded long-term fixed-rate contracts to charter two LNG carriers to the Tangguh LNG project in Indonesia. The carriers will be chartered for a period of 20 years to The Tangguh Production Sharing Contractors, a consortium led by BP Berau, a subsidiary of BP plc. In connection with this award, the Company has exercised shipbuilding options with Hyundai Heavy Industries Co. Ltd. to construct two 155,000 cubic meter LNG carriers. The vessels are scheduled to deliver in late 2008 and early 2009, respectively. The Company is entering into these transactions with an Indonesian partner who has taken a 30% interest in the vessels and related contracts. In accordance with an existing agreement, Teekay is required to offer its ownership interest in these vessels and related charter contracts to Teekay LNG.
- c) In August 2005, the Company announced that it had been awarded long-term fixed-rate contracts to charter four LNG carriers to Ras Laffan Liquefied Natural Gas Co. Limited (III) (or *RasGas III*), a joint venture company between a subsidiary of ExxonMobil Corporation and Qatar Petroleum. The vessels will be chartered to RasGas III at fixed rates, with inflation adjustments, for a period of 25 years (with options to extend up to an additional 10 years), scheduled to commence in the first half of 2008. In connection with this award, the Company has entered into agreements with Samsung Heavy Industries Co. Ltd. to construct four 217,000 cubic meter LNG carriers at a total contract price of approximately \$1 billion. The Company is entering into these transactions with Qatar Gas Transport Company which has taken a 60% interest in the vessels and related contracts. In accordance with an existing agreement, Teekay is required to offer its ownership interest in these vessels and related charter contracts to Teekay LNG.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

June 30, 2005

PART I FINANCIAL INFORMATION

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

**General**

Teekay is one of the world's leading providers of international crude oil and petroleum product transportation services. We estimate that we transported more than 10 percent of the world's seaborne oil in 2004. Through our acquisition of Teekay Shipping Spain S.L. (or *Teekay Spain*) (formerly Naviera F. Tapias S.A.), we have also expanded into the liquefied natural gas (or *LNG*) shipping sector. As at June 30, 2005, our fleet (excluding vessels managed for third parties) consisted of 143 vessels (including 12 newbuildings on order, 54 vessels time-chartered-in and five vessels owned through joint ventures). Our conventional tankers provide for a total cargo-carrying capacity of approximately 14.0 million deadweight tonnes (or *mdwt*), and our LNG and liquid petroleum gas carriers have total cargo-carrying capacity of approximately 1.0 million cubic meters.

Our voyage revenues are derived from:

- Voyage charters, which are charters for shorter intervals that are priced on a current, or spot, market rate;
- Time charters and bareboat charters, whereby vessels are chartered to customers for a fixed period of time at rates that are generally fixed, but may contain a variable component, based on inflation, interest rates or current market rates; and

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Contracts of affreightment, where we carry an agreed quantity of cargo for a customer over a specified trade route within a given period of time.

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

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

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- (1) Under a consecutive voyage charter, the customer pays for idle time.  
 (2) "Hire" rate refers to the basic payment from the charterer for the use of the vessel.  
 (3) Defined below under "Important Financial and Operational Terms and Concepts."  
 (4) "Off-hire" refers to the time a vessel is not available for service.

### **New Long-Term, Fixed-Rate LNG Contracts Awarded**

In July and August 2005, we announced that we have been awarded long-term, fixed-rate contracts to charter six LNG carriers, and have entered into agreements to construct a total of six LNG carriers in connection with these awards. Two of the LNG carriers will be chartered for a period of 20 years to The Tangguh Production Sharing Contractors, and four will be chartered for a period of 25 years (with options to extend up to an additional 10 years) to Ras Laffan Liquefied Natural Gas Co. Limited (III). Partners in each of these projects will participated with us in the ownership of the time charters and related vessels, and we will offer our interest in these charters and vessels to our subsidiary Teekay LNG Partners L.P. Please read Item 1 Financial Statements: Note 17 Subsequent Events.

### **Initial Public Offering by Teekay LNG Partners L.P.**

On May 10, 2005, our subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) sold, as part of an initial public offering, 6,900,000 of its common units at \$22.00 per unit for proceeds of \$135.9 million, net of an estimated \$15.9 million of expenses associated with the Offering. Currently, we own a 77.7% interest in Teekay LNG (including its 2% general partner interest). Please read Item 1 Financial Statements: Note 3 Initial Public Offering of Teekay LNG Partners L.P.

### **Segments**

Our fleet is divided into three main segments: the spot tanker segment, the fixed-rate tanker segment and the fixed-rate LNG segment.

#### *Spot Tanker Segment*

Our spot tanker segment consists of conventional crude oil tankers and product carriers operating on the spot market or subject to time charters or contracts of affreightment priced on a spot-market basis or short-term fixed-rate contracts. We consider contracts that have an original term of less than three years in duration to be short-term. Substantially all of our conventional Aframax, large product and small product tankers are among the vessels included in the spot tanker segment. Our spot market operations contribute to the volatility of our revenues, cash flow from operations and net income. 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. During the three months ended June 30, 2005, we took delivery of one newbuilding Aframax tanker currently trading on the spot market. During this period, we completed the sale of three Aframax tankers built between 1988 and 1989 and one Suezmax tanker built in 1990 and we recorded a gain of approximately \$25.4 million relating to their sale. As at June 30, 2005, we had three Aframax tankers on order in our spot tanker segment scheduled to be delivered between July 2005 and March 2007, and three large product tankers scheduled to be delivered between August 2005 and December 2006.

#### *Fixed-Rate Tanker Segment*

Our fixed-rate tanker segment includes our shuttle tanker operations, floating storage and offtake vessels, liquid petroleum gas carrier, and conventional crude oil, methanol and product tankers on long-term, fixed-rate time-charter contracts or contracts of affreightment. Our shuttle tanker business is operated through our business unit Teekay Navion Shuttle Tankers, which includes the shuttle tanker operations of our subsidiaries Navion AS and Uglund Nordic Shipping AS. This business unit provides services to oil companies, primarily in the North Sea, under long-term fixed-rate contracts of affreightment or time-charter contracts. Historically, the utilization of shuttle tankers in the North Sea is

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higher in the winter months as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to the offshore oil platforms, which generally reduces oil production. As at June 30, 2005, we had on order for our fixed-rate tanker segment two newbuilding conventional crude oil Aframax tankers and one newbuilding conventional crude oil Suezmax tanker. Upon delivery of the Aframax tankers, which are scheduled for January and March 2008, the vessels will commence 10-year long-term charters to our Skaugen PetroTrans joint venture. The Suezmax tanker is scheduled to commence a 20-year time charter contract with Compania Espanola de Petroleos, S.A., a Spanish energy conglomerate, in August 2005. In connection with the closing of its initial public offering, we have transferred to Teekay LNG this Suezmax tanker along with four additional Suezmax tankers held by Teekay Spain in this segment.

### *Fixed-Rate LNG Segment*

Our fixed-rate LNG segment consists of LNG carriers subject to long-term, fixed-rate time-charter contracts. The acquisition of Teekay Spain on April 30, 2004 established our entry into the LNG shipping sector. Our fixed-rate LNG segment includes four LNG carriers acquired as part of the Teekay Spain acquisition. Two of the LNG carriers have been included from the date of the Teekay Spain acquisition; the other two vessels delivered in July and December 2004, respectively. As at June 30, 2005, we had three newbuilding LNG carriers on order, which will commence service under long-term, fixed-rate charter contracts with Ras Lafan Liquefied Natural Gas Co. Limited II (or *RasGas II*), a joint venture company between a subsidiary of ExxonMobil Corporation and Qatar Petroleum, upon their deliveries, which are scheduled for the fourth quarter of 2006 and the first half of 2007. The vessels will be time-chartered to RasGas II for a period of 20 years with a charterer's option to extend for periods up to an additional 15 years. These LNG charter contracts are subject, in certain circumstances, to termination and vessel purchase rights in favor of RasGas II. Qatar Gas Transport Company is expected to exercise its right to acquire a 30% interest in these vessels. In connection with the closing of its initial public offering, we have transferred to Teekay LNG all of our LNG carriers and have agreed to sell to Teekay LNG all of our interest in the three RasGas II vessels upon delivery of the first such vessel in 2006. In accordance with existing agreements, we will also be offering our interests in the Tangguh and RasGas III LNG carriers to Teekay LNG.

### **Acquisition of Teekay Shipping Spain S.L.**

On April 30, 2004, we acquired 100% of the issued and outstanding shares of Teekay Spain for \$298.2 million in cash and the assumption of existing debt and then remaining newbuilding commitments. Please read Item 1 Financial Statements: Note 4 Acquisition of Teekay Shipping Spain S.L.

### **Important Financial and Operational Terms and Concepts**

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

***Voyage Revenues.*** Voyage revenues primarily include revenues from voyage charters, time charters and contracts of affreightment. Voyage revenues are affected by hire rates and the number of calendar-ship-days a vessel operates. Voyage revenues are also affected by the mix of business between time charters, voyage charters and contracts of affreightment. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

***Forward Freight Agreements.*** We are exposed to market risk for vessels in our spot tanker segment from changes in spot market rates for vessels. In certain cases, we use forward freight agreements (or *FFAs*) to manage this risk. FFAs involve contracts to provide a fixed number of theoretical voyages at fixed-rates, thus hedging a portion of our exposure to the spot charter market. These agreements are recorded as assets or liabilities and measured at fair value. Changes in the fair value of the FFAs are recognized in other comprehensive income (loss) until the hedged item is recognized as voyage revenues in income. The ineffective portion of a change in fair value is immediately recognized into income through voyage revenues.

***Voyage Expenses.*** Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the customer under time charters and by us under voyage charters and contracts of affreightment. When we pay voyage expenses, we typically add them to our hire rates at an approximate cost.

***Net Voyage Revenues.*** Net voyage revenues represent voyage revenues less voyage expenses. Because the amount of voyage expenses we incur for a particular charter depends upon the form of the charter, we use net voyage revenues to improve the comparability between periods of reported revenues that are generated by the different forms of charters. We principally use net voyage revenues, a non-GAAP financial measure, because it provides more meaningful information to us about the deployment of our vessels and their performance than voyage revenues, the most directly comparable financial measure under accounting principles generally accepted in the United States (or *GAAP*).

***Vessel Operating Expenses.*** Under all types of charters for our vessels, except for bareboat charters, we are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses.

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**Income from Vessel Operations.** To assist us in evaluating our operations by segment, we analyze our income from vessel operations for each segment, which represents the income we receive from the segment after deducting operating expenses and depreciation and amortization, but prior to the deduction of interest expense, income taxes, foreign currency and other income and losses.

**Drydocking.** We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. Generally, we drydock each of our vessels every two and a half to five years, depending upon the type of vessel and its age. In addition, a shipping society classification intermediate survey is performed on our LNG carriers between the second and third year of a five-year drydocking period. We capitalize a substantial portion of the costs incurred during drydocking and for the survey and amortize those costs on a straight-line basis from the completion of a drydocking or intermediate survey to the estimated completion of the next drydocking. We expense costs related to routine repairs and maintenance incurred during drydocking or intermediate survey that do not improve or extend the useful lives of the assets. The number of drydockings undertaken in a given period, and the nature of the work performed determine the level of drydocking expenditures.

**Depreciation and Amortization.** Our depreciation and amortization expense typically consists of:

charges related to the depreciation of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of our vessels;

charges related to the amortization of drydocking expenditures over the estimated number of years to the next scheduled drydocking; and

charges related to the amortization of the fair value of the time charters, contracts of affreightment and intellectual property where amounts have been attributed to those items in acquisitions. These amounts are amortized over the period during which the asset is expected to contribute to our future cash flows.

**Time Charter Equivalent Rates.** Bulk shipping industry freight rates are commonly measured in the shipping industry at the net voyage revenues level in terms of time-charter equivalent (or *TCE*) rates, which represent net voyage revenues divided by revenue days.

**Revenue Days.** Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with major repairs, drydockings or special or intermediate surveys. As a result, we use revenue days to explain changes in our net voyage revenues between periods.

**Calendar-ship-days.** Calendar-ship-days are equal to the total number of calendar days that our vessels were in our possession during a period. As a result, we use calendar ship days in explaining changes in vessel operating expenses, time charter hire expense and depreciation and amortization.

**Restricted Cash Deposits.** Under capital lease arrangements for two of our LNG carriers, we (a) borrow under term loans and deposit the proceeds into restricted cash accounts and (b) enter into capital leases, or bareboat charters, for the vessels. The restricted cash deposits, together with interest earned thereon, will equal the remaining amounts we owe under the lease arrangements, including our obligation to purchase the vessels at the end of the lease terms. During vessel construction, we borrowed under the term loans and made restricted cash deposits equal to construction installment payments. We also maintain restricted cash deposits relating to certain term loans and other obligations. Please read Item 1 Notes to the Consolidated Financial Statements: Note 8 Capital Leases and Restricted Cash.

### Tanker Market Overview

During the second quarter of 2005, tanker freight rates continued to decline from the very high levels experienced earlier in 2005; however, Aframax tanker rates remained at relatively firm levels when compared to historical averages.

Global oil demand, an underlying driver of tanker demand, averaged 81.8 million barrels per day (or *mb/d*) during the second quarter of 2005, a decline of 2.1 *mb/d* from the previous quarter, but 0.9 *mb/d* or 1.1%, higher than the second quarter of 2004. While seasonal factors were the main cause of the quarter-on-quarter decline in demand, continued global economic growth led to an increase in oil demand from the prior year despite record high oil prices. On July 13, 2005, the International Energy Agency (or *IEA*) lowered its annual global oil demand growth forecast for 2005 as demand in the first half of 2005 was weaker than anticipated. However, the outlook for the second half of 2005 remains positive, with oil demand in the fourth quarter estimated to be 4.1 *mb/d*, or 5.0%, higher than the second quarter of 2005 and 2.1 *mb/d*, or 2.5%, higher than the fourth quarter of 2004. For 2006, the IEA forecasts a further increase in oil demand of 1.8 *mb/d*, or 2.1% higher than 2005 demand, to 85.5 *mb/d*.



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Global oil supply, a direct driver of tanker demand, grew by 0.8 mb/d, or 0.9%, to 84.5 mb/d in the second quarter and was 2.0 mb/d higher than the same period last year. Long-haul Middle East OPEC oil production rose by 0.4 mb/d in the second quarter of 2005 from the previous quarter, while an increase in non-OPEC oil production led by Brazil and Africa added a further 0.3 mb/d. In response to rising oil prices, OPEC members raised production quotas by 0.5 mb/d to 28.0 mb/d effective July 1, 2005 and authorized the OPEC President to commence discussions on a further 0.5 mb/d increase should oil prices remain high.

The size of the world tanker fleet rose to 345.0 mdwt as of June 30, 2005, up 4.0 mdwt, or 1.2%, from the end of the previous quarter. Deletions aggregated 2.1 mdwt in the second quarter of 2005, down from 2.7 mdwt in the previous quarter. Deliveries of tanker newbuildings during the second quarter of 2005 totaled 5.8 mdwt, compared to the 9.0 mdwt in the previous quarter.

As of June 30, 2005, the world tanker orderbook stood at 89.0 mdwt, representing 25.8% of the total world tanker fleet, compared to 86.0 mdwt or 25.2% as of March 31, 2005.

**Results of Operations**

In accordance with GAAP, we report gross voyage revenues in our income statements and include voyage expenses among our operating expenses. However, shipowners base economic decisions regarding the deployment of their vessels upon anticipated TCE rates, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time charter contracts the customer usually pays the voyage expenses, while under voyage charters and contracts of affreightment the shipowner 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 voyage revenues (*i.e.* voyage revenues less voyage expenses) and TCE rates of our three reportable segments where applicable. Please read Item 1 Financial Statements: Note 2 Segment Reporting.

The following tables compare our operating results by reportable segment for the three and six months ended June 30, 2005 and 2004, and compare our net voyage revenues (which is a non-GAAP financial measure) by reportable segment for the three and six months ended June 30, 2005 and 2004 to voyage revenues, the most directly comparable GAAP financial measure:

	Three Months Ended June 30, 2005 (Unaudited)				Three Months June 30, (Unaudit		
	Spot Tanker Segment (\$000's)	Fixed-Rate Tanker Segment (\$000's)	Fixed-Rate LNG Segment (\$000's)	Total (\$000's)	Spot Tanker Segment (\$000's)	Fixed-Rate Tanker Segment (\$000's)	F
Voyage revenues.....	266,566	188,796	24,778	480,140	290,688	178,935	
Voyage expenses.....	81,354	16,940	2	98,296	87,723	20,870	
Net voyage revenues.....	185,212	171,856	24,776	381,844	202,965	158,065	
Vessel operating expenses.....	16,068	31,453	3,820	51,341	23,752	28,376	
Time charter hire expense.....	72,280	52,174	-	124,454	60,369	46,205	
Depreciation and amortization.....	12,684	30,099	7,523	50,306	25,976	32,493	
General and administrative(1).....	23,310	13,607	3,262	40,179	12,081	12,994	
Writedown / (gain) on sale of vessels and equipment.....	(26,147)	10,253	-	(15,894)	(450)	-	
Restructuring charge.....	-	-	-	-	240	-	
Income from vessel operations.....	87,017	34,270	10,171	131,458	80,997	37,997	
	Six Months Ended June 30, 2005 (Unaudited)				Six Months June 30, (Unaudit		
	Spot Tanker Segment	Fixed-Rate Tanker Segment	Fixed-Rate LNG Segment	Total	Spot Tanker Segment	Fixed-Rate Tanker Segment	F

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	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Voyage revenues.....	587,550	360,958	49,043	997,551	666,544	354,530
Voyage expenses.....	165,550	31,225	50	196,825	175,498	36,979
Net voyage revenues.....	422,000	329,733	48,993	800,726	491,046	317,551
Vessel operating expenses.....	33,875	63,743	8,163	105,781	47,205	53,835
Time charter hire expense.....	138,496	94,540	-	233,036	119,924	95,315
Depreciation and amortization.	28,550	60,794	15,045	104,389	50,862	61,221
General and administrative(1).	41,635	26,040	6,202	73,877	25,099	27,601
Writedown / (gain) on sale of vessels and equipment.....	(123,116)	5,369	-	(117,747)	(1,053)	-
Restructuring charge.....	-	-	-	-	1,002	-
Income from vessel operations.	302,560	79,247	19,583	401,390	248,007	79,579

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

The following tables outline the TCE rates earned by the vessels in our spot tanker segment for the three and six months ended June 30, 2005 and 2004:

Vessel Type	Three Months Ended June 30, 2005 (Unaudited)			Three Months Ended June 30, 2004 (Unaudited)	
	Net Voyage Revenues (\$000's)	Revenue Days	TCE per Revenue Day (\$)	Net Voyage Revenues (\$000's)	Revenue Days
Very Large Crude Carriers.....	-	-	-	14,957	-
Suezmax Tankers (1).....	24,538	577	42,527	23,861	-
Aframax Tankers (2).....	123,294	3,575	34,496	142,024	5,000
Large Product Tankers.....	22,293	782	28,508	10,227	-
Small Product Tankers.....	15,087	996	15,148	11,896	-
Totals.....	185,212	5,930	31,233	202,965	7,000

(1) Results for the three months ended June 30, 2005 and 2004 for our Suezmax tankers include realized losses from FFAs of \$0.8 million (\$1,460 per revenue day) and \$2.1 million (\$3,297 per revenue day), respectively.

(2) Results for the three months ended June 30, 2005 and 2004 for our Aframax tankers include realized gains from FFAs of \$0.2 million (\$50 per revenue day) and realized losses from FFAs of \$3.7 million (\$726 per revenue day), respectively.

Vessel Type	Six Months Ended June 30, 2005 (Unaudited)			Six Months Ended June 30, 2004 (Unaudited)	
	Net Voyage Revenues (\$000's)	Revenue Days	TCE per Revenue Day (\$)	Net Voyage Revenues (\$000's)	Revenue Days
Very Large Crude Carriers.....	8,356	90	92,844	34,357	-
Suezmax Tankers (1).....	45,525	1,117	40,756	60,336	1,000
Aframax Tankers (1).....	294,499	7,896	37,301	348,110	10,000
Oil/Bulk/Ore Carriers (2).....	-	-	-	3,269	-
Large Product Tankers.....	42,959	1,429	30,062	21,081	-
Small Product Tankers.....	30,661	1,945	15,764	23,339	1,000

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Totals.....	422,000	12,477	33,822	490,492	14
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- Results for the six months ended June 30, 2005 and 2004 for our Suezmax tankers include realized losses from FFAs of \$2.9 million (\$2,612 per revenue day) and \$3.3 million (\$2,758 per revenue day), respectively. Results for the six months ended June 30, 2005 and 2004 for our Aframax tankers include realized gains from FFAs of \$0.5 million (\$60 per revenue day) and realized losses from FFAs of \$6.3 million (\$626 per revenue day), respectively.
- The oil/bulk/ore carrier fleet's net voyage revenues exclude \$0.5 million (six months ended June 30, 2004) of net voyage revenues earned by the minority pool participants in the Panamax oil/bulk/ore pool that we operated prior to our disposition of all of our oil/bulk/ore carriers and the termination of the pool in 2004.

Because we completed our acquisition of Teekay Spain on April 30, 2004, our 2004 financial results for our segments only reflect Teekay Spain's results of operations commencing May 1, 2004.

**Spot Tanker Segment**

TCE rates for the vessels in our spot tanker segment primarily depend on oil production and consumption levels, the number of vessels scrapped, the number of newbuildings delivered and charterers' preference for modern tankers. As a result of our dependence on the tanker spot market, any fluctuations in TCE rates will affect our revenues and earnings. Our average TCE rate for the vessels in our spot tanker segment increased 13.5% and 0.9%, respectively, to \$31,233 and \$33,822 for the three and six months ended June 30, 2005, from \$27,528 and \$33,508 for the same periods last year.

The following table provides a summary of the changes in fleet size of our spot tanker segment by owned and chartered-in vessels:

	Three Months Ended June 30,			Six Months Ended June 30,	
	2005 (Unaudited) (Calendar Days)	2004 (Unaudited) (Calendar Days)	Percentage Change (%)	2005 (Unaudited) (Calendar Days)	2004 (Unaudited) (Calendar Days)
Owned Vessels.....	2,384	4,158	(42.7)	5,597	8,311
Chartered-in Vessels.	3,633	3,319	9.5	7,006	6,511
Total.....	6,017	7,477	(19.5)	12,603	14,822

The average fleet size of our spot tanker fleet (including vessels chartered-in) decreased 19.5% and 15.0%, respectively, for the three and six months ended June 30, 2005, from the same periods last year. These decreases were primarily due to the sale of a number of older single-hull vessels during the 12 months ended June 30, 2005 as part of our fleet renewal program, partially offset by newbuilding deliveries and additional chartered-in vessels. These fleet changes reduced the average age of the vessels in our spot tanker segment from 8.0 years at June 30, 2004 to 6.1 years at June 30, 2005. As of June 30, 2005, we have two remaining single-hull vessels in our spot tanker fleet.

**Net Voyage Revenues.** Net voyage revenues for the spot tanker segment decreased 8.7% and 14.1% to \$185.2 million and \$422.0 million, respectively, for the three and six months ended June 30, 2005, from \$203.0 million and \$491.0 million for the same periods last year, primarily due to the decrease in fleet size, partially offset by the increase in our average TCE rates.

**Vessel Operating Expenses.** Vessel operating expenses decreased 32.4% and 28.2%, respectively, to \$16.1 million and \$33.9 million for the three and six months ended June 30, 2005, from \$23.8 million and \$47.2 million in the same periods last year. These decreases were mainly attributable to the sale of older vessels in the last 12 months and lower repairs and maintenance activity as a result of the reduction in the average age of the vessels in our spot tanker segment.

**Time-Charter Hire Expense.** Time-charter hire expense increased 19.7% and 15.5%, respectively, to \$72.3 million and \$138.5 million for the three and six months ended June 30, 2005, from \$60.4 million and \$119.9 million for the same periods last year, due primarily to the increase in the average number of chartered-in Aframax and product tankers. In addition, our average per day time-charter hire expense increased 9.4% and 7.4%, respectively, to \$19,895 per day and \$19,768 per day for the three and six months ended June 30, 2005, from \$18,189 per day and \$18,413 per day for the same periods last year.

**Depreciation and Amortization.** Depreciation and amortization expense decreased 51.2% and 43.8%, respectively, to \$12.7 million and \$28.6 million for the three and six months ended June 30, 2005, from \$26.0 million and \$50.9 million for the same periods last year. These decreases were

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primarily due to the previously mentioned sales of older vessels, partially offset by newbuildings deliveries in the previous 12 months. Drydock amortization was \$1.5 million and \$3.4 million, respectively, for the three and six months ended June 30, 2005, compared to \$4.5 million and \$8.9 million for the same periods last year. The decreases in drydock amortization were primarily due to the dispositions of older vessels.

*Gain on Sale of Vessels.* Gain on sale of vessels for the three months ended June 30, 2005 reflects gains of \$26.1 million, which include \$25.5 million of gains from the sale of three older Aframax vessels and one Suezmax tanker built in 1990, as well as \$0.6 million of amortization of a deferred gain on the sale and leaseback of three Aframax tankers in December 2003. Gain on sale of vessels for the six months ended June 30, 2005 reflects gains of \$123.1 million, which include \$121.9 million of gains from the sale of 11 older Aframax vessels, one Suezmax tanker built in 1990 and a Suezmax tanker newbuilding, as well as \$1.2 million of amortization of a deferred gain on the sale and leaseback of the three Aframax tankers in December 2003. The gains on sale of vessels of \$0.5 million and \$1.1 million, respectively, for the three and six months ended June 30, 2004 also primarily reflect the amortization of the deferred gain on the sale and leaseback of those three Aframax vessels.

*Restructuring Charges.* We incurred restructuring charges of \$0.2 million and \$1.0 million, respectively, for the three and six months ended June 30, 2004 relating to the closure of our Oslo office. We had no restructuring charges in the three and six months ended June 30, 2005.

### *Fixed-Rate Tanker Segment*

The following table provides a summary of the change in fleet size of our fixed-rate tanker segment by owned and chartered-in vessels:

	Three Months Ended June 30,			Six Months Ended June	
	2005 (Unaudited) (Calendar Days)	2004 (Unaudited) (Calendar Days)	Percentage Change (%)	2005 (Unaudited) (Calendar Days)	2004 (Unaudited) (Calendar Days)
Owned Vessels.....	3,639	3,730	(2.4)	7,369	7,000
Chartered-in Vessels...	1,663	1,404	18.4	2,942	3,000
Total.....	5,302	5,134	3.3	10,338	10,000

The average fleet size of our fixed-rate tanker segment (including vessels chartered-in) increased 3.3% and 2.5%, respectively, for the three and six months ended June 30, 2005, compared to the same periods last year. The increase for the three months ended June 30, 2005 was primarily due to the addition of four Suezmax tankers from the acquisition of Teekay Spain on April 30, 2004 and an increase in the number of vessels chartered-in, including a VLCC which commenced service under long-term charter in April 2005, partially offset by the sale of older vessels. The increase for the six months ended June 30, 2005 is primarily due to the addition of the four Suezmax tankers mentioned above, partially offset by a decrease in the number of vessels chartered in.

*Net Voyage Revenues.* Net voyage revenues increased 8.7% and 3.8%, respectively, to \$171.9 million and \$329.7 million, for the three and six months ended June 30, 2005, from \$158.1 million and \$317.6 million for the same periods last year, due primarily to the inclusion of Teekay Spain's four Suezmax tankers on long-term time charters. The increase for the six months ended June 30, 2005 was partially offset by unscheduled temporary shutdowns of oil production on three oil fields in the North Sea in the first quarter of 2005.

*Vessel Operating Expenses.* Vessel operating expenses increased 10.9% and 18.4%, respectively, to \$31.5 million and \$63.7 million for the three and six months ended June 30, 2005, from \$28.4 million and \$53.8 million for the same periods last year, due primarily to the increased number of owned vessels, including the four Suezmax tankers from the Teekay Spain acquisition, the commencement of operations upon delivery of the *Pattani Spirit*, a floating storage and offtake unit, under a long-term fixed-rate charter with Unocal, and increase in insurance costs due to higher hull values and higher repair and maintenance activity on our shuttle tanker fleet. The four Suezmax tankers from the Teekay Spain acquisition have higher average daily vessel operating expenses than our other Suezmax tankers in this segment due to Spanish crew requirements. This is the primary reason for the 10.9% and 18.4% increases in vessel operating expenses compared to the 2.4% decrease and 4.4% increase in the number of calendar ship days for the three and six months ended June 30, 2005 compared to the same periods in 2004. Under the terms of our time charter contracts, the TCE rates earned for these Teekay Spain Suezmax vessels is also higher to compensate for the higher costs.

*Time-Charter Hire Expense.* Time-charter hire expense increased 12.9% to \$52.2 million for the three months ended June 30, 2005, compared to \$46.2 million for the same period last year, primarily due to the increase in the average number of vessels chartered-in. Time-charter hire expense decreased 0.8% to \$94.5 million for the six months ended June 30, 2005 compared to \$95.3 million for the same period last year, primarily due to the decrease in average number of vessels chartered-in.

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**Depreciation and Amortization.** Depreciation and amortization expense decreased 7.4% and 0.7%, respectively, to \$30.1 million and \$60.8 million for the three and six months ended June 30, 2005, from \$32.5 million and \$61.2 million for the same periods last year, due primarily to the sale of older vessels as part of our fleet renewal program. Depreciation and amortization expense included amortization of contracts of affreightment and time charter contracts of \$4.1 million and \$8.1 million, respectively, for the three and six months ended June 30, 2005, compared to \$5.6 million and \$10.2 million for the same periods last year. Depreciation and amortization expense included amortization of drydocking costs of \$2.1 million and \$4.3 million, respectively, for the three and six months ended June 30, 2005, compared to \$1.6 million and \$3.0 million for the same periods last year.

**Writedown of Vessels and Equipment.** Writedown of vessels and equipment of \$10.3 million for the three months ended June 30, 2005 is primarily related to a \$10.2 million writedown of the carrying value of certain offshore equipment that was employed on a short-term contract servicing a marginal oil field which had prematurely shut down due to a lower than expected oil production rate. We expect to be able to re-deploy this equipment on another field, and are close to entering a contract to employ some of this equipment. Writedown and gain on sale of vessels and equipment for the six months ended June 30, 2005 is composed of the previously mentioned \$10.2 million writedown of equipment, partially offset by a \$5.2 million gain on the sale of an older shuttle tanker in the first quarter of 2005. There were no writedowns or vessel sales in the three and six months ended June 30, 2004 in the fixed-rate tanker segment.

### ***Fixed-Rate LNG Segment***

The following table provides a summary of the change in fleet size of our fixed-rate LNG segment:

	Three Months Ended June 30,			Six Months Ended June	
	2005 (Unaudited) (Calendar Days)	2004 (Unaudited) (Calendar Days)	Percentage Change (%)	2005 (Unaudited) (Calendar Days)	2004 (Unaudited) (Calendar Days)
Owned Vessels.....	364	122	198.4	724	122

The results of our fixed-rate LNG segment reflect the operations of our four LNG carriers acquired as part of our acquisition of Teekay Spain on April 30, 2004, including deliveries of a newbuilding carrier in each of July and December 2004. We had no LNG shipping operations prior to the Teekay Spain acquisition. On May 10, 2005, our subsidiary Teekay LNG issued 6,900,000 common units as part of its initial public offering, effectively reducing our ownership of Teekay LNG to 77.7%. As of June 30, 2005, all of the vessels in our fixed-rate LNG segment were owned by Teekay LNG. The results below reflect 100% of these vessels. The minority owners' share of the results of these vessels is reflected as minority interest expense contained in other net in our consolidated statement of income.

**Net Voyage Revenues.** Net voyage revenues totaled \$24.8 million and \$49.0 million, respectively, for the three and six months ended June 30, 2005, compared to \$7.9 million for both the three and six months ended June 30, 2004.

**Vessel Operating Expenses.** Vessel operating expenses totaled \$3.8 million and \$8.2 million, respectively, for the three and six months ended June 30, 2005, compared to \$1.6 million for both the three and six months ended June 30, 2004.

**Depreciation and Amortization.** Depreciation and amortization was \$7.5 million and \$15.0 million for the three and six months ended June 30, 2005, which included \$2.2 million and \$4.4 million, respectively, of amortization of time-charter contracts acquired as part of the Teekay Spain acquisition. Depreciation and amortization was \$2.4 million for both the three and six months ended June 30, 2004, which included \$0.7 million of amortization of time-charter contracts acquired as part of the Teekay Spain acquisition.

### ***Other Operating Results***

**General and Administrative Expenses.** General and administrative expenses increased 55.6% and 38.2%, respectively, to \$40.2 million and \$73.9 million for the three and six months ended June 30, 2005, from \$25.8 million and \$53.4 for the same periods last year. The increases primarily reflect:

- increases of \$5.2 million and \$10.3 million, respectively, relating to the adoption of a long-term incentive program for management during March 2005 (please read Item 1 Financial Statements: Note 10 Commitments and Contingencies Long-Term Incentive Program);
- increases of \$4.5 million and \$5.4 million, respectively, from the grant of 0.7 million restricted stock units to employees in March 2005 (Please read Item 1 Financial Statements: Note 9 Capital Stock);

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increases of \$1.8 million for each period relating to our acquisition of Teekay Spain in April 2004; and increases of \$1.5 million and \$3.0 million, respectively, from the weakening of the U.S. Dollar from corresponding 2004 levels relative to other currencies in which we pay certain general and administrative expenses.

Interest Expense. Interest expense increased 8.6% and 36.0%, respectively, to \$33.3 million and \$71.0 million for the three and six months ended June 30, 2005, from \$30.7 million and \$52.2 million for the same periods last year, primarily due to interest on the additional debt we assumed as part of our acquisition of Teekay Spain.

Interest Income. Interest income increased to \$8.4 million and \$16.7 million, respectively, for the three and six months ended June 30, 2005, from \$4.9 million and \$6.1 million for the same periods last year, primarily due to interest earned on cash and restricted cash we acquired as part of our acquisition of Teekay Spain. Please read Item 1 Notes to the Consolidated Financial Statements: Note 8 Capital Leases and Restricted Cash.

Equity Income From Joint Ventures. Equity income from joint ventures decreased to \$2.9 million for the three months ended June 30, 2005, compared to \$3.3 million in the same period last year, primarily due to a decline in revenue of some of our joint ventures. Equity income from joint ventures increased to \$5.7 million for the six months ended June 30, 2005, compared to \$5.1 million in the same periods last year, primarily due to increased equity income from our Skaugen PetroTrans Inc. joint venture.

Foreign Exchange Gains (Losses). Foreign exchange gains were \$21.7 million and \$47.5 million, respectively, for the three and six months ended June 30, 2005, compared to foreign exchange losses of \$5.4 million and \$6.3 million in the same periods last year, primarily due to the strengthening of the U.S. Dollar relative to other currencies, particularly the Euro, since March 31, 2005 and December 31, 2004, respectively. Most of our foreign currency gains or losses are attributable to the revaluation of our Euro-denominated term loans at the end of each period for financial reporting purposes, and substantially all of the gains or losses are unrealized. As of the date of this report, our Euro-denominated revenues generally approximate our Euro-denominated operating expenses and our Euro-denominated interest and principal repayments.

Other Income (Loss). Other loss for the three and six months ended June 30, 2005 was \$26.5 million and \$16.7 million, respectively, and was primarily comprised of an \$8.8 million loss on bond redemption (both three and six months), loss from settlement of interest rate swaps of \$7.8 million (both three and six months), writeoff of capitalized loan costs of \$7.5 million (both three and six months), minority interest expense of \$6.5 million (three months) and \$7.1 million (six months), partially offset by income tax recovery of \$0.6 million (three months) and \$9.9 million (six months), and leasing income from our volatile organic compound emissions equipment. The loss from settlement of interest rate swaps and the writeoff of capitalized loan costs are non-recurring items related to debt repayments made prior to the initial public offering of Teekay LNG. The minority interest expense in the three and six months ended June 30, 2005 primarily reflects the minority owners share of the foreign exchange gains incurred by Teekay LNG.

Other income for the three and six months ended June 30, 2004 was \$4.3 million and \$4.1 million, respectively, and was primarily comprised of dividend income of \$5.7 million (three months) and \$5.7 million (six months), gain on sale of marketable securities of \$2.2 million (three months) and \$3.1 million (six months), and leasing income from our volatile organic compound emissions equipment, partially offset by income tax expense of \$6.1 million (three months) and \$8.2 million (six months) and minority interest expense of \$0.6 million (three months) and \$1.2 million (six months).

Net Income. As a result of the foregoing factors, net income was \$104.6 million and \$383.6 million, respectively, for the three and six months ended June 30, 2005, compared to \$98.5 million and \$287.6 million for the same periods last year.

### LIQUIDITY AND CAPITAL RESOURCES

#### Liquidity and Cash Needs

As at June 30, 2005, our total cash and cash equivalents was \$246.8 million, compared to \$427.0 million as at December 31, 2004. Our total liquidity, including cash and undrawn long-term borrowings, was \$1.4 billion as at June 30, 2005, up from \$1.3 billion as at December 31, 2004. The increase in liquidity was mainly the result of proceeds from the sale of vessels during the quarter ended June 30, 2005, as well as cash generated by our operating activities, partially offset by long-term debt repayments, cash used for capital expenditures, share repurchases and payment of dividends. We believe that our working capital is sufficient for our present requirements.

#### Cash Flows

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

	Six Months E
	June 30, 2005 (Unaudited) (\$000's)
Net operating cash flows.....	346,790
Net financing cash flows.....	(789,820)
Net investing cash flows.....	262,825

### Operating Cash Flows

The decrease in net operating cash flow mainly reflects the net decrease in our fleet to 23,665 calendar days in the six months ended June 30, 2005 to 25,043 calendar days in the same period in 2004.

### Financing Cash Flows

Scheduled debt repayments were \$55.0 million during the six months ended June 30, 2005, compared to \$76.7 million during the same period last year. Debt prepayments were \$1.7 billion during the six months ended June 30, 2005, compared to \$704.2 million during the same period last year. We used cash generated from operations, proceeds from vessel sales and longer-term financings to make these prepayments. Of our debt prepayments in the six months ended June 30, 2005, \$580.1 million was used to prepay a number of term loans and \$1.1 billion was used to prepay revolving credit facilities. In addition, we used a total of \$56.8 million to repay a portion of the 8.875% Senior Notes due July 11, 2011 and \$5.6 million to repay the 8.32% First Preferred Ship Mortgage Notes (by way of a deposit held at The Bank of New York, the trustee). 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 the facilities. Please read Item 1 Notes to Consolidated Financial Statements: Note 7 Long-Term Debt. In addition, in April 2005, we paid \$143.3 million to settle interest rate swaps associated with \$727.4 million of debt. Please read Item 1 Notes to Consolidated Financial Statements: Note 14 Derivative Instruments and Hedging Activities.

During the six months ended June 30, 2005, net proceeds from the initial public offering of Teekay LNG were \$139.4 million. We used these proceeds towards repaying debt as noted above. Please read Item 1 Notes to Consolidated Financial Statements: Note 3 Initial Public Offering of Teekay LNG Partners L.P.

As at June 30, 2005, our total long-term debt was \$1.5 billion, compared to \$2.1 billion as at December 31, 2004. As at June 30, 2005, our revolving credit facilities provided for borrowings of up to \$1.8 billion, of which \$1.2 billion was undrawn. The aggregate amount available under our revolving credit facilities reduces by \$73.0 million (2005), \$146.9 million (2006), \$148.2 million (2007), \$363.4 million (2008), \$189.7 million (2009) and \$863.8 million (thereafter). All of the revolving credit facilities are collateralized by first-priority mortgages granted on 49 of our vessels, together with other related collateral, and include a guarantee from Teekay for all amounts outstanding under the Revolvers. Our 7.25% Premium Equity Participating Security Units (or the *Equity Units*) are due May 18, 2006 and our unsecured 8.875% Senior Notes are due July 15, 2011. Our outstanding term loans reduce in monthly or quarterly payments with varying maturities through 2023. Please read Item 1 Notes to Consolidated Financial Statements: Note 7 Long-Term Debt.

Among other matters, our long-term debt agreements generally provide for maintenance of certain vessel market value-to-loan ratios and minimum consolidated financial covenants, and prepayment privileges (in some cases with penalties). Certain of the loan agreements require that a minimum level of free cash be maintained. As at June 30, 2005, this amount was \$100.0 million. Certain of the loan agreements also require that we maintain a minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity. As at June 30, 2005, this amount was \$157.6 million.

Dividends declared during the six months ended June 30, 2005 were \$22.5 million, or \$0.275 per share.

During the first quarter of 2005, we repurchased 1.6 million shares for \$67.6 million, or \$42.27 per share, which completed a 3 million share repurchase program that cost a total of \$128.9 million or \$42.95 per share. During the second quarter of 2005, pursuant to the share repurchase program announced in April 2005 for up to \$225.0 million, we repurchased 3.6 million shares for \$155.9 million, or \$43.25 per share. In July 2005, we announced that our Board of Directors has authorized an additional \$250.0 million share repurchase program.

### Investing Cash Flows

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During the six months ended June 30, 2005, we incurred capital expenditures for vessels and equipment of \$160.7 million. These capital expenditures primarily represented the installment payments on our Aframax tankers, Suezmax tankers and LNG carriers under construction.

During the six months ended June 30, 2005, we completed the sale of 11 Aframax tankers built between 1988 and 1991, two Suezmax tankers built in 1990 and 2005, and two shuttle tankers built in 1986 and 1991, respectively. These vessels were sold for total proceeds of \$433.7 million.

### Commitments and Contingencies

The following table summarizes our long-term contractual obligations as at June 30, 2005:

In millions of U.S. Dollars	Total	Less than 1 year	1 - 3 years	3 - years
<b>U.S. Dollar-Denominated Obligations:</b>				
Long-term debt (1).....	1,115.6	23.2	178.4	87.0
Chartered-in vessels (operating leases) .....	1,364.3	222.2	561.4	250.0
Commitments under capital leases (2) (3) .....	270.0	12.5	157.9	15.0
Newbuilding installments (4).....	684.6	237.0	396.9	50.0
Commitment for volatile organic compound emissions equipment.....	28.3	28.3	-	-
<b>Total U.S. Dollar-denominated obligations</b>	<b>3,462.8</b>	<b>523.2</b>	<b>1,294.6</b>	<b>404.0</b>
<b>Euro-Denominated Obligations: (5)</b>				
Long-term debt (6).....	389.1	3.9	17.2	19.0
Commitments under capital leases (2) (7).....	441.9	93.3	177.1	60.0
<b>Total Euro-denominated obligations</b>	<b>831.0</b>	<b>97.2</b>	<b>194.3</b>	<b>80.0</b>
<b>Total</b>	<b>4,293.8</b>	<b>620.4</b>	<b>1,488.9</b>	<b>484.0</b>

(1) Excludes interest payments which are based on LIBOR plus a margin.

(2) We are committed to capital leases on one Aframax tanker, four Suezmax tankers and two LNG carriers. Each capital lease requires us to purchase the vessel at the end of its respective lease term. The amounts in the table include our purchase obligations for the vessels. Please read Item 1 - Notes to the Consolidated Financial Statements: Note 8 - Capital Leases and Restricted Cash.

(3) Excludes payments for a Suezmax newbuilding on capital lease that delivered in July 2005.

(4) Represents remaining construction costs, excluding capitalized interest and miscellaneous construction costs, for five Aframax tankers, one Suezmax tanker (which delivered in July 2005), three product tankers and three LNG carriers. Please read Item 1 - Notes to the financial statements: Note 10 - Commitments and Contingencies.

(5) Euro-denominated obligations are presented in U.S. Dollars and have been converted using the prevailing exchange rate as of June 30, 2005.

(6) Excludes interest payments, which are based on EURIBOR plus a margin.

(7) Existing restricted cash deposits, together with the interest earned on the deposits, will equal the remaining amounts we owe under the lease arrangements, including our obligation to purchase the vessels at the end of the lease terms.

We and certain of our subsidiaries have guaranteed our share of the outstanding mortgage debt in four 50%-owned joint venture companies. Please read Item 1 - Notes to Consolidated Financial Statements: Note 10 - Commitments and Contingencies - Joint Ventures. We do not believe these off-balance sheet arrangements have, and we have no other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

As part of our growth strategy, we will 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, and the issuance of additional shares of capital stock or any combination thereof.



## Critical Accounting Policies

We prepare our consolidated financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments, and opinions. Following is a discussion of the accounting policies that involve a high degree of judgment and the methods of their application. For a further description of our material accounting policies, please read Note 1 to our consolidated financial statements for the year ended December 31, 2004, included in our Annual Report on Form 20-F filed with the SEC.

### *Revenue Recognition*

We generate a majority of our revenues from spot voyages and voyages servicing contracts of affreightment. Within the shipping industry, the two methods used to account for voyage revenues and expenses are the percentage of completion and the completed voyage methods. Most shipping companies, including us, use the percentage of completion method. For each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In other words, revenues are recognized ratably either from the beginning of when product is loaded for one voyage to when it is loaded for another voyage, or from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage.

In applying the percentage of completion method, we believe that in most cases the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, we generally have information about the next load port and expected discharge port, whereas at the time of loading we are normally less certain what the next load port will be. We use this method of revenue recognition for all spot voyages and voyages servicing contracts of affreightment, with an exception for our shuttle tankers servicing contracts of affreightment with offshore oil fields. In this case a voyage commences with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. However we do not begin recognizing voyage revenue for any of our vessels until a charter has been agreed to by the customer and us, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

We recognize revenues from time charters daily over the term of the charter as the applicable vessel operates under the charter. We do not recognize revenues during days that the vessel is off-hire.

### *Vessel Lives and Impairment*

The carrying value of each of our vessels represents its original cost at the time of delivery or purchase less depreciation or impairment charges. We depreciate our vessels on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. Depreciation is calculated using an estimated useful life of 25 years for Aframax, Suezmax, VLCC and product tankers, and 35 years for LNG carriers, from the date the vessel was originally delivered from the shipyard, or a shorter period if regulations prevent us from operating the vessels to 25 or 35 years, respectively. In the shipping industry, the use of a 25-year vessel life for Aframax, Suezmax, VLCC and product tankers has become the prevailing standard. In addition, the use of a 30 to 40 year vessel life for LNG carriers is typical. However, the actual life of a vessel may be different, with a shorter life potentially resulting in an impairment loss. We have reduced the estimated useful lives from 25 years to an average of approximately 21 years for our two remaining single hull vessels affected by regulatory changes announced in 2003 by the International Maritime Organization. We are not aware of any other regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations.

The carrying values of our vessels may not represent their fair market value at any point in time since the market prices of secondhand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. We review vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We measure the recoverability of an asset by comparing its carrying amount to future undiscounted cash flows that the asset is expected to generate over its remaining useful life. If we consider a vessel or equipment to be impaired, we recognize impairment in an amount equal to the excess of the carrying value of the asset over its fair market value.

### *Drydocking*

Generally, we drydock each vessel every two and a half to five years. In addition, a shipping society classification intermediate survey is performed on our LNG carriers between the second and third year of their five-year drydocking period. We capitalize a substantial portion of the costs we incur during drydocking and for the survey and amortize those costs on a straight-line basis from the completion of a drydocking or intermediate survey to the estimated completion of the next drydocking. We expense costs related to routine repairs and maintenance incurred during drydocking or intermediate survey that do not improve or extend the useful lives of the assets. When significant drydocking expenditures occur prior to the expiration of the original amortization period, the remaining unamortized balance of the original drydocking cost and any unamortized intermediate survey costs are expensed in the month of the subsequent drydocking.

### *Goodwill and Intangible Assets*

We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as time charter contracts, contracts of affreightment and intellectual property are being amortized over time. Our future operating performance will be affected by the amortization of intangible assets and potential impairment charges related to goodwill. Accordingly, the allocation of purchase price to intangible assets and goodwill may significantly affect our future operating results. The allocation of the purchase price of the acquired companies to intangible assets and goodwill requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows.

Goodwill and indefinite lived assets are not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. The process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis. The fair value of our reporting units was estimated based on discounted expected future cash flows using a weighted-average cost of capital rate. The estimates and assumptions regarding expected cash flows and the discount rate require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions.

**FORWARD-LOOKING STATEMENTS**

This Report on Form 6-K for the quarterly period ended June 30, 2005 contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and our operations, performance and financial condition, including, in particular, statements regarding: our future growth prospects; tanker market fundamentals, including the balance of supply and demand in the tanker market, and spot tanker charter rates; future capital expenditures; delivery dates of and financing for newbuildings, and the commencement of service of newbuildings under long-term contracts; the impact of the Teekay Spain acquisition to us and our strategic position; and Teekay's share repurchase plan. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, will be, will continue, will likely result, or words or phrases of similar meaning. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to: changes in production of or demand for oil, petroleum products and LNG, either generally or in particular regions; the cyclical nature of the tanker industry and our dependence on oil and LNG markets; greater or less than anticipated levels of vessel newbuilding orders or greater or less than anticipated rates of vessel scrapping; changes in trading patterns significantly impacting overall vessel tonnage requirements; changes in applicable industry laws and regulations and the timing of implementation of new laws and regulations; changes in typical seasonal variations in tanker charter rates; changes in the offshore production of oil; competitive factors in the markets in which we operate; our potential inability to integrate effectively the operations of any future acquisitions; the potential for early termination of long-term contracts and our inability to renew or replace long-term contracts; shipyard production delays; conditions in the public equity markets; and other factors detailed from time to time in our periodic reports, including our Annual Report on Form 20-F for the year ended December 31, 2004, filed with the SEC. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

**TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES  
JUNE 30, 2005  
PART I FINANCIAL INFORMATION**

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to fluctuations in foreign currency exchange rates, interest rates, bunker fuel prices and spot market rates for vessels. We use foreign currency forward contracts, interest rate swaps, bunker fuel swap contracts and forward freight agreements to manage currency, interest rate, bunker fuel price risks and spot market rates. Please read Item 1 Notes to Consolidated Financial Statements: Note 14 Derivative Instruments and Hedging Activities.

The following table sets forth further information about these foreign exchange forward contracts, interest rate swap agreements, bunker fuel swap contracts, forward freight agreements and long-term debt as at June 30, 2005 and December 31, 2004:

Contract Amount	Carrying Amount Asset	Liability
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	(in millions of U.S. dollars)		
<u>June 30, 2005</u>			
Foreign Currency Forward Contracts.....	89.1	4.5	
Interest Rate Swap Agreements.....	2,273.2		85.4
Bunker Fuel Swap Contracts.....	1.5	0.8	
Forward Freight Agreements.....	17.9	1.1	
Debt (including capital lease obligations).....	2,101.5		2,101.5
<u>December 31, 2004</u>			
Foreign Currency Forward Contracts.....	104.2	16.6	
Interest Rate Swap Agreements.....	2,304.9		158.5
Bunker Fuel Swap Contracts.....	3.6	0.1	
Forward Freight Agreements.....	40.0		3.3
Debt (including capital lease obligations).....	2,744.5		2,744.5

The table below provides information about our financial instruments as at June 30, 2005, which are sensitive to changes in interest rates. For debt obligations, the table presents principal payments and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

	Expected Maturity Date					The
	2005	2006	2007	2008	2009	
(in millions of U.S. dollars, except percenta						
<u>Long-Term Debt</u>						
Fixed-Rate Debt .....	1.8	147.4	3.6	3.6	3.6	3
Average Interest Rate.....	4.1%	7.2%	4.1%	4.1%	4.1%	
Variable Rate Debt.....						
U.S. Dollar-Denominated(1).....	21.3	13.8	13.8	21.3	58.8	5
Euro-Denominated(2) (3) .....	3.9	8.3	8.9	9.5	10.2	3
Capital Lease Obligations(4)						
Fixed-Rate Obligations(5).....	4.0	135.3	3.4	3.5	3.7	
Average Interest Rate (6).....	7.8%	8.9%	6.1%	6.2%	6.3%	
<u>Interest Rate Swaps: (7)</u>						
Contract Amount (US Dollar-						
Denominated) ((8)).....	-	500.0	-	-	200.0	1,1
Average Fixed Pay Rate(1).....	-	2.8%	-	-	4.2%	
Contract Amount (Euro-						
Denominated) (3).....	3.9	8.3	8.9	9.5	10.2	3
Average Fixed Pay Rate(2).....	3.8%	3.8%	3.8%	3.8%	3.8%	

- (1) Interest payments for U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR.
- (2) Interest payments on Euro-denominated debt and interest rate swaps are based on EURIBOR.
- (3) Euro-denominated amounts have been converted to U.S. Dollars using the prevailing exchange rate as of June 30, 2005.
- (4) Excludes capital lease obligations (present value of minimum lease payments) of 312.1 million Euros (\$377.6 million) on two of our LNG carriers. Under the terms of these lease obligations, we are required to have on deposit with financial institutions an amount of cash that, together with the interest earned thereon, will fully fund the amount owing under the capital lease obligations, including purchase obligations. Consequently, we are not subject to interest rate risk from these obligations.
- (5) The amount of capital lease obligations represents the present value of minimum lease payments together with our purchase obligation.
- (6) The average interest rate is the weighted-average interest rate implicit in the capital lease obligations at the inception of the leases.
- (7) The average variable receive rate for our interest rate swaps is set monthly at 1-month LIBOR or EURIBOR or semi-annually at the 6-month LIBOR or EURIBOR.
- (8) The inception date of the interest rate swaps maturing in 2009 is 2006. The inception dates of the interest rate swaps maturing after 2009 are 2005 (\$200.0 million), 2006 (\$478.0 million), 2007 (\$256.0 million) and 2009 (\$250.0 million).
- (9) Rate refers to the weighted-average effective interest rate for our debt, including the margin we pay on our floating-rate debt, as at June 30, 2005, and average fixed pay rate for our swap agreements, as applicable. The average fixed pay rate for our interest rate swaps excludes the margin we pay on our floating-rate debt, which as of June 30, 2005 ranged from 0.5% to 1.3%.

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For a more comprehensive discussion related to the general characteristics of Quantitative and Qualitative Disclosures about Market Risk, please refer to Item 11 Quantitative and Qualitative Disclosures about Market Risk contained in our Annual Report on Form 20-F for the year ended December 31, 2004.

### TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

June 30, 2005

#### PART II OTHER INFORMATION

##### Item 1 Legal Proceedings

None

##### Item 2 Changes in Securities and Use of Proceeds

None

##### Item 3 Defaults Upon Senior Securities

None

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

The Company's 2005 Annual Meeting of Shareholders was held on June 1, 2005. The following persons were elected directors for a term of three years by the votes set forth opposite their names:

<u>Terms Expiring in 2008</u>	<u>Votes For</u>	<u>Votes Against or Withheld</u>	<u>Shares Which Abstained</u>
Thomas Kuo-Yuen Hsu	76,784,484	718,741	N/A
Axel Karlshoej	76,783,884	719,341	N/A
Bjorn Moller	76,819,403	683,822	N/A

The terms of Directors Bruce C. Bell, Dr. Ian D. Blackburne, C. Sean Day, Peter S. Janson, Eileen A. Mercier and Tore I. Sandvold continued after the meeting.

Shareholders also ratified the selection of Ernst & Young LLP, Chartered Accountants, as independent auditors of the Company for the fiscal year ending December 31, 2005, as set forth below:

	<u>Votes For</u>	<u>Votes against or Withheld</u>	<u>Shares Which Abstained</u>
Ernst & Young LLP	77,432,490	56,956	13,779

##### Item 5 Other Information

None

##### Item 6 Exhibits

None

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

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**REGISTRATION STATEMENT ON FORM F-3 (NO. 33-97746) FILED WITH THE SEC ON OCTOBER 4, 1995;  
REGISTRATION STATEMENT ON FORM S-8 (NO. 333-42434) FILED WITH THE SEC ON JULY 28, 2000;  
REGISTRATION STATEMENT ON FORM F-3 (NO. 333-102594) FILED WITH THE SEC ON JANUARY 17, 2003; AND  
REGISTRATION STATEMENT ON FORM S-8 (NO. 333-119564) FILED WITH THE SEC ON OCTOBER 6, 2004**

**SIGNATURES**

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

TEEKAY SHIPPING CORPORATION

Date: August 15, 2005

By: /s/ Peter Evensen  
Peter Evensen  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Exhibit 15.1**

**ACKNOWLEDGEMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 333-42434) pertaining to the Amended 1995 Stock Option Plan of Teekay Shipping Corporation (or *Teekay*), in the Registration Statement (Form S-8 No. 333-119564) pertaining to the 2003 Equity Incentive Plan and the Amended 1995 Stock Option Plan of Teekay, in the Registration Statement (Form F-3 No. 333-102594) and related Prospectus of Teekay for the registration of up to \$500,000,000 of its common stock, preferred stock, warrants, stock purchase contracts, stock purchase units or debt securities and in the Registration Statement (Form F-3 No. 33-97746) and related Prospectus of Teekay for the registration of 2,000,000 shares of Teekay common stock under its Dividend Reinvestment Plan of our report dated April 22, 2005, relating to the unaudited consolidated interim financial statements of Teekay and its subsidiaries that is included in its interim report (Form 6-K) for the three months ended June 30, 2005.

Pursuant to Rule 436(c) of the Securities Act of 1933, our report is not a part of the registration statements prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

Vancouver, Canada,  
July 22, 2005

/s/ Ernst & Young LLP  
Chartered Accountants