

TEEKAY CORP  
Form 6-K  
August 31, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 6-K**

**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16 of**  
**the Securities Exchange Act of 1934**  
**For the quarterly period ended June 30, 2015**  
**Commission file number 1- 12874**

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

**4<sup>th</sup> Floor, Belvedere Building**  
**69 Pitts Bay Road**

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**Hamilton, HM 08, Bermuda**

**(Address of principal executive office)**

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

Form 20-F       Form 40-F

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

Yes       No

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

Yes       No

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**TEEKAY CORPORATION AND SUBSIDIARIES**

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

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## ITEM 1 - FINANCIAL STATEMENTS

## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

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

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

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of U.S. Dollars)

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

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

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

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

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

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

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

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**TEEKAY CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of U.S. Dollars)

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

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

Supplemental cash flow information (*note 18*)

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. Dollars)

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

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

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**TEEKAY CORPORATION AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Basis of Presentation**

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Given current credit markets, it is possible that the amounts recorded as derivative assets and liabilities could vary by material amounts prior to their settlement.

**2. Accounting Pronouncements**

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

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

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

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

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

**3. Segment Reporting**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**c) Teekay LNG BG International Limited Joint Venture**

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

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

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

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

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

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

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

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

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



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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

**e) Tanker Investments Ltd.**

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

**5. Vessel Charters**

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

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

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

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

## 6. Equity Financing Transactions

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

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

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**TEEKAY CORPORATION AND SUBSIDIARIES**

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

**7. Vessel Sales, Asset Impairments and Provisions**

**a) Vessel Sales**

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

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

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

**b) Asset Impairments and Loan Loss Recoveries**

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

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

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

**8. Long-Term Debt**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

**9. Capital Stock**

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

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

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

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

#### *Share-based Compensation of Subsidiaries*

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

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

## **10. Commitments and Contingencies**

### **a) Vessels Under Construction**

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

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

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

**c) Joint Ventures**

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

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

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

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

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

**d) Legal Proceedings and Claims**

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

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

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

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

*Petrojarl Banff Storm Damage*

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

**e) Redeemable Non-Controlling Interest**

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

**f) Other**

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

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

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

**b. Financing Receivables**

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

Class of Financing Receivable	Credit Quality Indicator	Grade	June 30, 2015	December 31, 2014
			\$	\$
Direct financing leases	Payment activity	Performing	693,532	