

TEEKAY CORP
Form 20-F/A
November 28, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A
(Amendment No. 2)

(Mark One)

..REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR

..TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

OR

..SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number 1-12874

TEEKAY CORPORATION

(Exact name of Registrant as specified in its charter)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

Not Applicable

(Translation of Registrant's name into English)

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(Address and telephone number of principal executive offices)

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Securities registered, or to be registered, pursuant to Section 12(b) of the Act.

Title of each class
Common Stock, par value of \$0.001 per share
Securities registered, or to be registered, pursuant to Section 12(g) of the Act.
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

Indicate the number of outstanding shares of each issuer's classes of capital or common stock as of the close of the period covered by the annual report.

86,149,975 shares of Common Stock, par value of \$0.001 per share.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

EXPLANATORY NOTE

Teekay Corporation (Teekay) is filing this Amendment No. 2 on Form 20-F/A (the Form 20-F/A) to amend and restate Items 5, 18 and 19 of its annual report on Form 20-F for the fiscal year ended December 31, 2016 (the Form 20-F) as originally filed with the Securities and Exchange Commission (the SEC) on April 12, 2017 and as previously amended on May 26, 2017, in order to (a) reflect the change in segment presentation of Teekay Offshore Partners L.P. (Teekay Offshore), as described below, and (b) correct certain immaterial errors to Item 5 in the Form 20-F as originally filed. Other than as expressly set forth above, this Form 20-F/A does not, and does not purport to, revise, amend, update or restate the information presented in any other item of the Form 20-F as originally filed with the SEC, or reflect, in any item of the Form 20-F, any events that have occurred after the Form 20-F was originally filed.

This Form 20-F/A is being filed primarily to provide (a) in Item 18, the audited financial statements of Teekay and its wholly-owned or controlled subsidiaries (collectively, the Company) described below and (b) in Item 5, a revised “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (or MD&A) of the Company as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014, which have been retroactively adjusted for the change in segment presentation of Teekay Offshore described below for the periods presented. The audited financial statements have been amended as follows: note 1 has been amended to describe the Brookfield Transaction (as defined below), and note 2 has been amended for the change in the segment presentation of Teekay Offshore to no longer show its individual lines of business in its operating segment. The MD&A has been amended in a similar fashion.

The consolidated financial statements in Item 18 include the accounts of the Company. Certain of Teekay’s significant non-wholly owned subsidiaries are consolidated in these financial statements even though Teekay owns less than a 50% ownership interest in the subsidiaries. These significant subsidiaries include the following publicly traded subsidiaries: Teekay LNG Partners L.P. (or Teekay LNG); Teekay Tankers Ltd. (or Teekay Tankers); and, until September 25, 2017, Teekay Offshore. On September 25, 2017, Teekay, Teekay Offshore and Brookfield Business Partners L.P. together with its institutional partners (collectively, Brookfield) completed a strategic partnership (or the Brookfield Transaction) which resulted in the deconsolidation of Teekay Offshore as of that date. Although Teekay owned less than 50% of Teekay Offshore’s outstanding common units prior to the deconsolidation, Teekay maintained control of Teekay Offshore until September 25, 2017 by virtue of its 100% ownership interest in the general partner of Teekay Offshore, Teekay Offshore GP LLC (or TOO GP). In connection with Brookfield's acquisition from Teekay of a 49% interest in TOO GP as part of the Brookfield Transaction, Teekay and Brookfield entered into an amended limited liability company agreement for TOO GP whereby Brookfield obtained certain participatory rights in the management of TOO GP, which resulted in Teekay deconsolidating Teekay Offshore for accounting purposes on September 25, 2017. Subsequent to the closing of the Brookfield Transaction, Teekay has significant influence over Teekay Offshore and accounts for its investment in Teekay Offshore using the equity method.

The Company allocates capital and assesses performance from the separate perspectives of its two publicly-traded subsidiaries Teekay LNG and Teekay Tankers (together, the Daughter Companies), Teekay and its remaining subsidiaries (or Teekay Parent), and its investment in Teekay Offshore, as well as from the perspective of the Company's lines of business. The primary focus of the Company’s organizational structure, internal reporting and allocation of resources by the chief operating decision maker is on the Daughter Companies, Teekay Parent and its investment in Teekay Offshore (the Legal Entity Approach) and its segments are presented accordingly on this basis. The Company (excluding its investment in Teekay Offshore) has three primary lines of business: (1) offshore production (floating production, storage and off-loading (or FPSO) units), (2) liquefied gas carriers (liquefied natural gas (or LNG) and liquefied petroleum gas (or LPG) carriers), and (3) conventional tankers. The Company manages these businesses for the benefit of all stakeholders. The Company incorporates the primary lines of business within its segments, as in certain cases there is more than one line of business in each Daughter Company and the Company believes this information allows a better understanding of the Company’s performance and prospects for future net

cash flows. Subsequent to the Brookfield Transaction on September 25, 2017, the Company assesses the performance of, and makes decisions to allocate resources to, its investment in Teekay Offshore as a whole and not at the level of the individual lines of business within Teekay Offshore, which are (1) offshore production (FPSO units), (2) offshore logistics (shuttle tankers, the HiLoad DP unit, floating storage and offtake (or FSO) units, units for maintenance and safety (or UMS) and long-distance towing and offshore installation vessels), and (3) conventional tankers. The Company has determined that its investment in Teekay Offshore represents a separate operating segment and that individual lines of business within Teekay Offshore are no longer disclosed in the Company's operating segments. All segment information has been retroactively adjusted in the audited financial statements included in Item 18 of this Form 20-F/A to be consistent with the change in segment presentation of Teekay Offshore described above.

This Form 20-F/A also includes currently-dated certifications from Teekay's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as well as the currently dated consent of Teekay's independent registered public accounting firm.

Unless otherwise indicated, references in this Form 20-F/A to "Teekay," the "Company," "we," "us" and "our" and similar terms refer to Teekay and its subsidiaries.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the financial statements and notes thereto appearing in Item 18 in this report.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, references to Teekay Corporation, the "Company", "we", "us" and "our" and similar terms refer to Teekay Corporation and its subsidiaries. References to "Teekay Offshore" refer to Teekay Offshore Partners L.P. (NYSE: TOO), references to Teekay LNG refer to Teekay LNG Partners L.P. (NYSE: TGP) and references to Teekay Tankers refer to Teekay Tankers Ltd. (NYSE: TNK).

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or GAAP).

Explanatory Note

On September 25, 2017, Teekay, Teekay Offshore and Brookfield Business Partners L.P. together with its institutional partners (collectively, Brookfield) completed a strategic partnership (or the Brookfield Transaction) which resulted in the deconsolidation of Teekay Offshore as of that date. Although Teekay owned less than 50% of Teekay Offshore, Teekay maintained control of Teekay Offshore until September 25, 2017, by virtue of its 100% ownership interest in the general partner of Teekay Offshore, Teekay Offshore GP LLC (or TOO GP). In connection with Brookfield's acquisition of a 49% interest in TOO GP as part of the Brookfield Transaction, Teekay and Brookfield entered into an amended limited liability company agreement whereby Brookfield obtained certain participatory rights in the management of TOO GP, which resulted in Teekay deconsolidating Teekay Offshore for accounting purposes on September 25, 2017. Subsequent to the closing of the Brookfield Transaction, Teekay has significant influence over Teekay Offshore and accounts for its investment in Teekay Offshore using the equity method. Prior to the Brookfield Transaction on September 25, 2017, our operating segments reflected further disaggregation within Teekay Offshore including three individual lines of business: (1) offshore production (FPSO units), (2) offshore logistics (shuttle tankers, the HiLoad DP unit, floating storage and offtake (or FSO) units, units for maintenance and safety (or UMS) and long-distance towing and offshore installation vessels), and (3) conventional tankers. Subsequent to September 25, 2017, we have determined that our investment in Teekay Offshore represents a single operating segment. All segment information for periods presented has been retroactively adjusted to be consistent with the change in segment presentation of Teekay Offshore described above.

All information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations has been retroactively adjusted (from that included in our 2016 Annual Report on Form 20-F originally filed with the SEC on April 12, 2017) for the change in segment presentation of Teekay Offshore for the periods presented. This includes, among other things, our results of operations for 2016, 2015 and 2014. All information that was forward looking in nature at the time our Management's Discussion and Analysis of Financial Condition and Results of Operations was originally filed with the SEC on April 12, 2017, as part of our 2016 Annual Report on Form 20-F, has not been updated to reflect any events or changes in circumstances that have occurred after such date. Our audited financial statements as at December 31, 2016 and 2015 and for the three years ended December 31, 2016, retroactively adjusted for the change in segment presentation of Teekay Offshore, are included in Item 18 of this report. For additional information about the change in segment presentation of Teekay Offshore, please read Notes 1 and 2 to the consolidated financial statements included in Item 18.

Overview

Teekay Corporation is an operational leader and project developer in the marine midstream space. We have general partnership interests in two publicly-listed master limited partnerships, Teekay Offshore and Teekay LNG. In addition, we have a controlling ownership of publicly-listed Teekay Tankers and we have a small fleet of directly-owned vessels. Teekay provides a comprehensive set of marine services to the world's leading oil and gas companies.

Structure

To understand our financial condition and results of operations, a general understanding of our organizational structure is required. Until the Brookfield Transaction on September 25, 2017, our organizational structure could be

divided into (a) our controlling interests in three publicly-traded subsidiaries, Teekay Offshore, Teekay LNG, and Teekay Tankers (together, the Daughter Companies), and (b) Teekay and its remaining subsidiaries, which is referred to herein as Teekay Parent. As of December 31, 2016, we had economic interests in Teekay Offshore, Teekay LNG and Teekay Tankers of 29.0%, 33.1% and 25.4%, respectively. Since we controlled the voting interests of the Daughter Companies through our ownership of the sole general partner interests of Teekay Offshore and Teekay LNG and of Class A and Class B common shares of Teekay Tankers, we consolidated the results of these subsidiaries until the Brookfield Transaction on September 25, 2017, when we deconsolidated Teekay Offshore. Please read “Item 4C. Information on the Company – Organizational Structure.”

Teekay Offshore and Teekay LNG primarily hold assets that generate long-term fixed-rate cash flows. The strategic rationale for establishing these two master limited partnerships was to illuminate the higher value of fixed-rate cash flows to Teekay investors, realize advantages of a lower cost of equity when investing in new offshore or LNG projects, enhance returns to Teekay through fee-based revenue and ownership of the partnerships’ incentive distribution rights and increase our access to capital for growth. Teekay Tankers holds a substantial majority of our conventional tanker assets. Teekay Parent continues to own three FPSO units and to in-charter a number of vessels. However, our long-term vision is for Teekay Parent to be primarily a general partner whose role is that of portfolio manager and project developer. Our primary financial objective for Teekay Parent is to increase its free cash flow per share. To support this objective, we intend to de-lever the balance sheet of Teekay Parent by completing the sales of the remaining FPSO units to Teekay Offshore or third parties over the next several years and to seek to grow the distributions of Teekay LNG and Teekay Offshore over the long-term. However, lower oil and gas prices and the resulting impact on the capital markets has resulted in the cost of equity increasing for us, Teekay Offshore and Teekay LNG. Consequently,

in the near-term, we do not expect to sell any of the remaining FPSO units to Teekay Offshore. In addition, in December 2015, we announced a plan to reduce our quarterly dividend, in response to announcements by the general partners of Teekay Offshore and Teekay LNG of their plans to reduce their respective quarterly cash distribution amounts to partially finance committed capital expenditures and to repay debt.

Teekay entered into an omnibus agreement with Teekay LNG, Teekay Offshore and related parties governing, among other things, when Teekay, Teekay LNG, and Teekay Offshore may compete with each other and certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units.

We (excluding our investment in Teekay Offshore) have three primary lines of business: offshore production (FPSO units), liquefied gas carriers and conventional tankers. We manage these businesses for the benefit of all stakeholders. We allocate capital and assess performance from the separate perspectives of Teekay LNG and Teekay Tankers, Teekay Parent, and its investment in Teekay Offshore, as well as from the perspective of the lines of business (the Line of Business approach). The primary focus of our organizational structure, internal reporting and allocation of resources by the chief operating decision maker, is on Teekay LNG and Teekay Tankers, Teekay Parent, and its investment in Teekay Offshore (the Legal Entity approach). As such, a substantial majority of the information provided herein has been presented in accordance with the Legal Entity approach. However, we have continued to incorporate the Line of Business approach as in certain cases there is more than one line of business in each of Teekay LNG, Teekay Tankers and Teekay Parent, and we believe this information allows a better understanding of our performance and prospects for future net cash flows. Subsequent to the Brookfield Transaction on September 25, 2017, we assess the performance of, and make decisions to allocate resources to, our investment in Teekay Offshore as a whole and not at the level of the individual lines of business within Teekay Offshore, which are (1) offshore production (FPSO units), (2) offshore logistics (shuttle tankers, the HiLoad DP unit, floating storage and offtake (or FSO) units, units for maintenance and safety (or UMS) and long-distance towing and offshore installation vessels), and (3) conventional tankers. We have determined that our investment in Teekay Offshore represents a separate operating segment and that individual lines of business within Teekay Offshore are no longer disclosed in our operating segments and are not discussed individually in the following sections.

Effective for the quarterly dividend and distributions of the fourth quarter of 2015, Teekay Parent reduced its quarterly cash dividend per share to \$0.055 from \$0.55, Teekay Offshore reduced its quarterly cash distribution per common unit to \$0.11 from \$0.56 and Teekay LNG reduced its quarterly cash distribution per common unit to \$0.14 from \$0.70. At the time these changes were made, there was a dislocation in the capital markets relative to the stability of our businesses. More specifically, the future equity capital requirements for our committed growth projects, coupled with the uncertainty regarding how long it would have taken for the energy and capital markets to normalize, resulted in us concluding that it would be in the best interests of our shareholders to conserve more of our internally generated cash flows for committed existing and future growth projects and to reduce debt levels. Teekay Parent, Teekay Offshore and Teekay LNG each maintained these reduced dividend and distribution levels for 2016. Despite the challenges in the global energy and capital markets, our cash flows from vessels operations remain largely stable and are supported by a large and well-diversified portfolio of fee-based contracts with high quality counterparties. In addition to using more of our internally generated cash flows for existing growth projects and to reduce our debt levels, we will continue to seek alternative sources of financing such as sale and leaseback transactions, asset sales, new bank borrowings and the issuance of new debt and equity securities.

Since early 2016, Teekay Parent and the Daughter Companies have been executing on a series of financing initiatives intended to contribute to the funding of our upcoming capital expenditures and debt maturities. For additional information about these initiatives, please read “Liquidity and Capital Resources”.

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:

Revenues. Revenues primarily include revenues from voyage charters, pool arrangements, time charters accounted for under operating and direct financing leases, contracts of affreightment and FPSO contracts. Revenues are affected by hire rates and the number of days a vessel operates, the daily production volume on FPSO units, and the oil price for certain FPSO units. Revenues are also affected by the mix of business between time charters, voyage charters, contracts of affreightment and vessels operating in pool arrangements. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

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 FPSO contracts and by us under voyage charters and contracts of affreightment.

Net Revenues. Net revenues represent revenues less voyage expenses. The amount of voyage expenses we incur for a particular charter depends upon the form of the charter. For example, under time-charter contracts and FPSO contracts the customer usually pays the voyage expenses and for contracts of affreightment the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Consequently, we use net revenues to improve the comparability between periods of reported revenues that are generated by the different forms of charters and contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us about the deployment of our vessels and their performance than revenues, the most directly comparable financial measure under United States generally accepted accounting principles (or GAAP).

Vessel Operating Expenses. Under all types of charters and contracts 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. The two largest components of our vessel operating expenses are crew costs and repairs and maintenance. We expect these expenses to increase

as our fleet matures and to the extent that it expands. We are taking steps to maintain these expenses at a stable level, but expect an increase in line with inflation in respect of crew, material, and maintenance costs. The strengthening or weakening of the U.S. Dollar relative to foreign currencies may result in significant decreases or increases, respectively, in our vessel operating expenses, depending on the currencies in which such expenses are incurred.

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, but prior to the deduction of interest expense, realized and unrealized gains (losses) on non-designated derivative instruments, income taxes, foreign currency and other income and losses.

Dry docking. We must periodically dry dock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. Generally, we dry dock 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 the five-year dry-docking cycle. We capitalize a substantial portion of the costs incurred during dry docking and for the survey, and amortize those costs on a straight-line basis from the completion of a dry docking or intermediate survey over the estimated useful life of the dry dock. We expense as incurred costs for routine repairs and maintenance performed during dry dockings that do not improve or extend the useful lives of the assets and annual class survey costs for our FPSO units. The number of dry dockings undertaken in a given period and the nature of the work performed determine the level of dry-docking expenditures.

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

- charges related to the depreciation and amortization 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 dry-docking expenditures over the useful life of the dry dock; and
- charges related to the amortization of intangible assets, including the fair value of time charters, contracts of affreightment and customer relationships where amounts have been attributed to those items in acquisitions; these amounts are amortized over the period in which the asset is expected to contribute to our future cash flows.

Time-Charter Equivalent (TCE) Rates. Bulk shipping industry freight rates are commonly measured in the shipping industry at the net revenues level in terms of “time-charter equivalent” (or TCE) rates, which represent net 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, dry dockings or special or intermediate surveys. Consequently, revenue days represent the total number of days available for the vessel to earn revenue. Idle days, which are days when the vessel is available for the vessel to earn revenue, yet is not employed, are included in revenue days. We use revenue days to explain changes in our net 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 primarily in explaining changes in vessel operating expenses, time-charter hire expense and depreciation and amortization.

ITEMS YOU SHOULD CONSIDER WHEN EVALUATING OUR RESULTS

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

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Our revenues are affected by cyclicity in the tanker markets. The cyclical nature of the tanker industry causes significant increases or decreases in the revenue we earn from our vessels, particularly those we trade in the spot conventional tanker market.

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

The size of and types of vessels in our fleet continues to change. Our results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries, vessel dispositions and changes to the number of vessels we charter in, as well as our entry into new markets. Please read “—Results of Operations” below for further details about vessel dispositions, deliveries and vessels chartered in. Due to the nature of our business, we expect our fleet to continue to fluctuate in size and composition.

Vessel operating and other costs are facing industry-wide cost pressures. The shipping industry continues to forecast a shortfall in qualified personnel, although weak shipping and offshore markets and slowing growth may ease officer shortages. We will continue to focus on our manning and training strategies to meet future needs, but going forward crew compensation may increase. In addition, factors such as pressure on commodity and raw material prices, as well as changes in regulatory requirements could also contribute to operating expenditure increases. We continue to take action aimed at improving operational efficiencies and to temper the effect of inflationary and other price escalations; however, increases to operational costs are still likely to occur in the future.

Our net income is affected by fluctuations in the fair value of our derivative instruments. Most of our existing cross currency and interest rate swap agreements and foreign currency forward contracts are not designated as hedges for accounting purposes. Although we believe the non-designated derivative instruments are economic hedges, the changes in their fair value are included in our consolidated statements of income as unrealized gains or losses on non-designated derivatives. The changes in fair value do not affect our cash flows or liquidity.

The amount and timing of dry dockings of our vessels can affect our revenues between periods. Our vessels are off hire at various times due to scheduled and unscheduled maintenance. During 2016 and 2015, on a consolidated basis we incurred 601 and 1,591 off-hire days relating to dry docking, respectively. The financial impact from these periods of off-hire, if material, is explained in further detail below in “—Results of Operations”. 26 of our vessels are scheduled for dry docking during 2017.

The division of our results of operations between the Daughter Companies and Teekay Parent is impacted by the sale of vessels from Teekay Parent to the Daughter Companies. During 2015, Teekay Parent sold certain of its vessels to Teekay Offshore. Teekay Offshore and the other Daughter Companies account for the acquisition of the vessels from Teekay as a transfer of a business between entities under common control. The method of accounting for such transfers is similar to the pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. In addition, such transfers are accounted for as if the transfer occurred from the date that the acquiring subsidiary and the acquired vessels were both under the common control of Teekay and had begun operations. As a result, the historical financial information of Teekay Offshore included in this Annual Report reflects the financial results of the vessels acquired from Teekay Parent from the date the vessels were both under the common control of Teekay and had begun operations but prior to the date they were owned by Teekay Offshore.

Three of Teekay LNG’s Suezmax tankers and one of its LPG carriers earned revenues based partly on spot market rates. The time-charter contract for one of Teekay LNG’s Suezmax tankers, the Teide Spirit, and one of its LPG carriers, the Norgas Napa, contain a component providing for additional revenue to Teekay LNG beyond the fixed-hire rate when spot market rates exceed certain threshold amounts. The time-charter contracts for the Bermuda Spirit and Hamilton Spirit were amended in the fourth quarter of 2012 for a period of 24 months, which ended on September 30, 2014, and during this period these charters contained a component providing for additional revenues to Teekay LNG beyond the fixed-hire rate when spot market rates exceeded certain threshold amounts. Accordingly, even though declining spot market rates did not result in Teekay LNG receiving less than the fixed-hire rate, Teekay LNG’s results of operations and cash flow from operations were influenced by the variable component of the charters in periods where the spot market rates exceeded the threshold amounts.

Our financial results are affected by fluctuations in currency exchange rates. Under GAAP, all foreign currency-denominated monetary assets and liabilities (including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities, unearned revenue, advances from affiliates, and long-term debt) are revalued and reported based on the prevailing exchange rate at the end of the period. These foreign currency translations fluctuate based on the strength of the U.S. Dollar relative to the applicable foreign currency, mainly to the Euro and NOK, and are included in our results of operations. The translation of all foreign currency-denominated monetary assets and liabilities at each reporting date results in unrealized foreign currency exchange gains or losses but do not impact our cash flows.

The duration of many of our shuttle tanker, FSO and FPSO contracts is the life of the relevant oil field or is subject to extension by the field operator or vessel charterer. If the oil field no longer produces oil or is abandoned or the contract term is not extended, we will no longer generate revenue under the related contract and will need to seek to redeploy affected vessels. Many of our shuttle tanker contracts have a “life-of-field” duration, which means that the contract continues until oil production at the field ceases. If production terminates for any reason, we no longer will generate revenue under the related contract. Other shuttle tanker, FSO and FPSO contracts under which our vessels operate are subject to extensions beyond their initial term. The likelihood of these contracts being extended may be negatively affected by reductions in oil field reserves, low oil prices generally or other factors. If we are unable to promptly redeploy any affected vessels at rates at least equal to those under the contracts, if at all, our operating

results will be harmed. Any potential redeployment may not be under long-term contracts, which may affect the stability of our cash flow and our ability to make cash distributions. FPSO units, in particular, are specialized vessels that have very limited alternative uses and high fixed costs. In addition, FPSO units typically require substantial capital investments prior to being redeployed to a new field and production service agreement. Any idle time prior to the commencement of a new contract or our inability to redeploy the vessels at acceptable rates may have an adverse effect on our business and operating results.

RECENT DEVELOPMENTS AND RESULTS OF OPERATIONS

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

(in thousands of U.S. dollars)	Revenues			Income from Vessel Operations		
	2016	2015	2014	2016	2015	2014
Teekay Offshore	1,152,390	1,229,413	1,019,539	230,853	283,399	256,218
Teekay LNG	396,444	397,991	402,928	153,181	181,372	183,823
Teekay Tankers ⁽¹⁾	526,896	504,347	235,593	86,456	184,083	58,271
Teekay Parent	340,513	419,166	450,112	(96,496)	(30,228)	(73,723)
Elimination of intercompany ⁽²⁾⁽³⁾	(87,674)	(100,535)	(114,252)	10,296	6,506	2,570
Teekay Corporation Consolidated	2,328,569	2,450,382	1,993,920	384,290	625,132	427,159

(1) In December 2015, Teekay Offshore sold two Aframax tankers to Teekay Tankers and the results of the two vessels are included in Teekay Offshore up to the date of sale and in Teekay Tankers from the date of acquisition.

(2) During 2016, Teekay Parent chartered in three FSO units, three shuttle tankers and one Aframax tanker from Teekay Offshore, two LNG carriers from Teekay LNG and two Aframax tankers from Teekay Tankers. During 2015, Teekay Parent chartered in three FSO units, two shuttle tankers and four Aframax tankers from Teekay Offshore, and two LNG carriers from Teekay LNG, and Teekay Parent chartered out one Aframax tanker to Teekay Tankers. During 2014, Teekay Parent chartered in three FSO units, two shuttle tankers and four Aframax tankers from Teekay Offshore, two LNG carriers from Teekay LNG and two Aframax tankers from Teekay Tankers. Internal charter hire between Teekay Parent and its subsidiaries Teekay Offshore, Teekay LNG and Teekay Tankers is eliminated upon consolidation.

(3) During 2014, Teekay Parent sold to Teekay Tankers a 50% interest in Teekay Tankers Operations Ltd (or TTOL), which owns the conventional tanker commercial management and technical management operations, including direct ownership in three commercially managed tanker pools of the Teekay group. Teekay Tankers and Teekay Parent each account for their 50% interests in TTOL as equity-accounted investments and, as such, TTOL's results are reflected in equity income of Teekay Tankers and Teekay Parent. Upon consolidation of Teekay Tankers into Teekay Corporation, the results of TTOL are accounted for on a consolidated basis by Teekay Corporation. The impact on our income from vessel operations of consolidating TTOL in 2016 was an increase of \$10.3 million (2015 - \$6.5 million, 2014 - \$2.6 million).

Summary

Teekay Corporation consolidated income from vessels operations decreased to \$384 million for the year ended December 31, 2016 compared to \$625 million in the prior year. The primary reasons for this decrease are as follows:

in Teekay Offshore, the cancellation of the construction contracts for its two UMS newbuildings, lower revenue from its UMS being off-hire for a portion of 2016 due to damage suffered to the gangway and the suspension of charter hire payments since early-November 2016 due to an operational review being conducted by the charterer, the expiration of certain shuttle tanker time-charter and affreightment contracts, change in estimate of useful life of certain shuttle tankers which increased depreciation expense, and the termination of the contract of the Petrojarl Varg FPSO; in Teekay LNG, the sale of three conventional tankers, partially offset by the delivery of two LNG newbuildings in 2016;

in Teekay Tankers, lower average TCE rates earned in the spot tanker market in 2016 compared to 2015; and in Teekay Parent, terminations of time charters and the lay-up of the Arctic Spirit and Polar Spirit LNG carriers in 2016, loss on sale of the Shoshone Spirit tanker, lower average TCE rates earned in the spot tanker market, and a contract amendment related to the Hummingbird Spirit FPSO which reduced its revenues.

Details of the changes to our results of operations for the year ended December 31, 2016, compared to the year ended December 31, 2015 are provided in the following section.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

Teekay LNG

Recent Developments in Teekay LNG

On November 15, 2016, the joint venture among National Oil & Gas Authority (or Nogaholding), Samsung C&T (or Samsung), Gulf Investment Corporation (or GIC) and Teekay LNG (or the Bahrain LNG Joint Venture), secured debt financing of \$741.1 million related to the development of an LNG receiving and regasification terminal in Bahrain. The receiving and regasification terminal will be owned and operated by the Bahrain LNG Joint Venture under a 20-year agreement with Nogaholding which is scheduled to commence operations in early-2019. In conjunction with this project, Teekay LNG will supply a floating storage unit (or FSU), which will be modified from one of Teekay LNG's nine wholly-owned LNG carrier newbuildings, and charter the FSU to the Bahrain LNG Joint Venture through a 20-year time-charter contract.

Teekay LNG has six LPG carriers currently on bareboat charter contracts with I.M. Skaugen SE (or Skaugen) with contract terms ending between 2019 and 2026. As at December 31, 2016, Teekay LNG had not been paid by Skaugen for a portion of the hire invoices for the period from August 2016 to December 2016 relating to these six vessels and totaling approximately \$9.2 million. As an alternative payment for a portion of these amounts, Skaugen offered to Teekay LNG its 35% ownership interest in an LPG carrier, the Norgas Sonoma, which is owned by Skaugen Gulf Petchem Carriers B.S.C.(c), a joint venture between Skaugen (35%), or Nogaholding (35%) and Suffun Bahrain W.L.L. (or Suffun) (30%) (or the Skaugen LPG Joint Venture). Both Nogaholding and Suffun exercised their option to participate in the purchase and sale of the Skaugen LPG Joint Venture and as a result, Teekay LNG is finalizing the acquisition of the Skaugen LPG Joint Venture for approximately \$13 million. Upon closing of this transaction, Teekay LNG will apply the purchase price of \$4.7 million, to be adjusted for working capital adjustments, relating to Skaugen's 35% ownership interest in the Skaugen LPG Joint Venture, to the outstanding hire invoices owed by Skaugen to Teekay LNG. As a result, as at December 31, 2016, Teekay LNG has not recognized any revenue relating to the remaining \$4.5 million of hire invoices outstanding from Skaugen given the uncertainty of its collection. Upon acquisition of the Skaugen LPG Joint Venture, Teekay LNG expects to continue to trade the Norgas Sonoma in the Norgas pool. In addition, there is uncertainty about Skaugen's ability to pay future invoices for our six LPG carriers on charter to them, which may impact Teekay LNG's revenues and cash flows in future periods if Teekay LNG is not able to redeploy the vessels at similar rates. Currently, lease payments from Skaugen represent approximately \$6 million of revenue each quarter.

During February and March 2016, Centrofin Management Inc. (or Centrofin), the charterer for both the Bermuda Spirit and Hamilton Spirit Suezmax tankers of Teekay LNG, exercised its option under the charter contracts to purchase both vessels. As a result of Centrofin's acquisition of the vessels, Teekay LNG recorded a \$27.4 million loss on the sale of the vessels and associated charter contracts in the first quarter of 2016. The Bermuda Spirit was sold in April 2016 and the Hamilton Spirit was sold in May 2016. Teekay LNG used the total proceeds of \$94.3 million from the sales primarily to repay existing term loans associated with these vessels.

On November 30, 2016, Teekay LNG reached an agreement to sell the Asian Spirit for net proceeds of \$20.6 million. As a result, Teekay LNG recorded a \$11.5 million impairment on the write-down of the vessel in the fourth quarter of 2016. Delivery of the vessel to the new owners occurred on March 21, 2017. Teekay LNG used the net proceeds from the sales primarily to repay an existing term loan associated with the vessel.

In February 2016 and July 2016, Teekay LNG took delivery of the first two of the 11 M-type, Electronically Controlled Gas Injection (or MEGI) LNG carrier newbuildings on order, which commenced their five-year charter contracts with a subsidiary of Cheniere Energy, Inc. in February 2016 and August 2016, respectively. As at December 31, 2016, Teekay LNG had nine wholly-owned LNG carrier newbuildings on order, of which one, the Torben Spirit, was delivered in February 2017, and the remaining eight are scheduled for delivery between late-2017 and early-2019.

On September 27, 2016, Teekay LNG entered into a 15-year time-charter contract with the Yamal LNG project (or the Yamal LNG Project), sponsored by Novatek OAO, Total SA, China National Petroleum Corporation and Silk Road Fund, to provide the Yamal LNG Project with conventional LNG transportation services. The Yamal LNG Project, which is now fully financed, is currently scheduled to commence production in late-2017. The charter contract will be serviced by one of Teekay LNG's previously unchartered 174,000 cubic meter (or cbm) MEGI LNG carrier newbuilding that is scheduled for delivery in early-2019.

Additionally, in November 2016, Teekay LNG entered into a 10-month plus one-year option charter contract with a major energy company. The charter contract commenced on March 3, 2017 and is being serviced by Teekay LNG's final previously unchartered 173,400 cbm MEGI LNG carrier newbuilding, the Torben Spirit, which was delivered to Teekay LNG on February 28, 2017. Prior to the conclusion of this charter, Teekay LNG will seek to secure a long-term contract on this vessel.

In December 2016, Teekay LNG entered into a 10-year \$682.8 million sale-leaseback agreement with ICBC Financial Leasing Co., Ltd. (or ICBC Leasing) for four of its nine wholly-owned LNG carrier newbuildings delivering in 2017 and 2018, and at such dates, ICBC Leasing will take delivery and charter each respective vessel back to Teekay LNG. At the end of the 10-year tenor of these leases, Teekay LNG has an obligation to repurchase the vessels from ICBC Leasing.

In addition to Teekay LNG's nine LNG wholly-owned carrier newbuildings, it has a 20% interest in two LNG carrier newbuildings and a 30% interest in another two LNG carrier newbuildings (or the BG Joint Venture) scheduled for delivery between 2017 and 2019 and six LNG carrier newbuildings relating to Teekay LNG's 50% owned joint venture with China LNG Shipping (Holdings) Limited (or the Yamal LNG Joint Venture) scheduled for delivery between 2018 and 2020. Including the transactions described above, Teekay LNG has entered into time-charter contracts for all of its remaining newbuildings.

In February, June, and November 2016, Exmar LPG BVBA (or the Exmar LPG Joint Venture), of which Teekay LNG has a 50% ownership interest, took delivery of the sixth, seventh, and eighth of its 12 LPG carrier newbuildings on order. The five-year charter contracts for the sixth and seventh LPG carriers with an international energy company based in Norway commenced in February 2016 and August 2016, respectively. As at December 31, 2016, the Exmar LPG Joint Venture had four LPG carrier newbuildings, of which one delivered in March 2017 and the remaining three are scheduled for delivery between mid-2017 and early-2018. The Exmar LPG Joint Venture has secured financing in place upon delivery of each respective vessel.

Two of the six LNG carriers (or MALT LNG Carriers) in Teekay LNG's 52% joint venture with Marubeni Corporation (or the Teekay LNG-Marubeni Joint Venture), the Marib Spirit and Arwa Spirit, are currently under long-term contracts expiring in 2029 with Yemen LNG Ltd. (or YLNG), a consortium led by Total SA. Due to the political situation in Yemen, YLNG decided to temporarily close operation of its LNG plant in Yemen in 2015. As a result, the Teekay LNG-Marubeni Joint Venture agreed in December 2015 to defer a portion of the charter payments for the two LNG carriers from January 1, 2016 to December 31, 2016 and a further deferral was agreed and effective in August 2016 and in January 2017, the deferral period was extended to December 31, 2017. Once the LNG plant in Yemen resumes operations, it is intended that YLNG will repay the deferred amounts in full, plus interest over a period of time to be agreed upon. However, there is no assurance if or when the LNG plant will resume operations or if YLNG will repay the deferred amounts, and this deferral period may extend beyond 2017. Teekay LNG's proportionate share of the impact of the charter payment deferral for 2016 was a reduction to equity income of \$21.2 million and this deferral period may extend beyond 2017. Teekay LNG's proportionate share of the estimated impact of the charter payment deferral for 2017 compared to original charter rates earned prior to December 31, 2015 is estimated to be a reduction to equity income ranging from \$20 million to \$30 million depending on any sub-chartering employment opportunities.

In 2015, the Magellan Spirit, one of the MALT LNG Carriers in the Teekay LNG-Marubeni Joint Venture, had a grounding incident. The charterer during that time claimed that the vessel was off-hire for more than 30 consecutive days during the first quarter of 2015, which, in the view of the charterer, permitted the charterer to terminate the charter contract. The Teekay LNG-Marubeni Joint Venture disputed both the charterer's aggregate off-hire claims as well as the charterer's ability to terminate the charter contract, which originally would have expired in August 2016. In May 2016, the Teekay LNG-Marubeni Joint Venture reached a settlement agreement with the charterer, under which the charter contract was deemed terminated and the charterer paid \$39.0 million to the Teekay LNG-Marubeni Joint Venture for lost revenues, of which Teekay LNG's proportionate share was \$20.3 million, which was received and included in equity income in the year ended December 31, 2016.

Operating Results – Teekay LNG

The following table compares Teekay LNG's operating results and number of calendar-ship-days for its vessels for 2016 and 2015, and compares its net revenues (which is a non-GAAP financial measure) for 2016 and 2015, to revenues, the most directly comparable GAAP financial measure, for the same periods.

	Liquefied Gas Carriers		Conventional Tankers		Teekay LNG Total	
	2016	2015	2016	2015	2016	2015
(in thousands of U.S. dollars, except calendar-ship-days)						
Revenues	336,530	305,056	59,914	92,935	396,444	397,991
Voyage expenses	(449)	203	(1,207)	(1,349)	(1,656)	(1,146)
Net revenues	336,081	305,259	58,707	91,586	394,788	396,845
Vessel operating expenses	(66,087)	(63,344)	(22,503)	(30,757)	(88,590)	(94,101)
Depreciation and amortization	(80,084)	(71,323)	(15,458)	(20,930)	(95,542)	(92,253)
General and administrative expenses ⁽¹⁾	(15,310)	(19,392)	(3,189)	(5,726)	(18,499)	(25,118)
Write-down and loss on sale of vessels	—	—	(38,976)	—	(38,976)	—
Restructuring charges	—	—	—	(4,001)	—	(4,001)
Income (loss) from vessel operations	174,600	151,200	(21,419)	30,172	153,181	181,372
Equity income	62,307	84,171	—	—	62,307	84,171
Calendar-Ship-Days ⁽²⁾						
Liquefied Gas Carriers	7,440	6,935	—	—	7,440	6,935
Conventional Tankers	—	—	2,439	2,920	2,439	2,920

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

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

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Teekay LNG – Liquefied Gas Carriers

As at December 31, 2016, Teekay LNG's liquefied gas fleet, including newbuildings, included 50 LNG carriers and 29 LPG/Multigas carriers, in which its interests ranged from 20% to 100%. The number of calendar-ship-days for Teekay LNG's liquefied gas carriers consolidated in its financial results increased to 7,440 days in 2016 from 6,935 days in 2015, as a result of the deliveries to Teekay LNG of the Creole Spirit and Oak Spirit in February 2016 and July 2016, respectively. During 2016, one of Teekay LNG's consolidated vessels in this segment was off-hire for a scheduled in-water survey, the Creole Spirit was off-hire for 32 days for repairs covered under warranty, and the Creole Spirit and Oak Spirit's time-charter contracts commenced in February 2016 and August 2016, respectively, compared to one consolidated vessel in this segment being off-hire for 47 days in 2015. As a result, Teekay LNG's utilization decreased to 99.1% for 2016, compared to 99.3% in 2015.

Income from vessel operations increased to \$174.6 million in 2016 compared to \$151.2 million in 2015, primarily as a result of:

- an increase of \$19.9 million as a result of the deliveries of the Creole Spirit and Oak Spirit and the commencement of their charter contracts;
 - an increase of \$4.1 million as a result of lower general and administrative expenses primarily due to reimbursement from the Bahrain Joint Venture in 2016 of Teekay LNG's proportionate costs, including pre-operation, engineering and financing-related expenses, upon the joint venture securing its financing in the fourth quarter of 2016;
 - an increase of \$3.8 million due to lower vessel operating expenses due to the charterer, Teekay, not being able to find employment for the Arctic Spirit and Polar Spirit for a portion of 2016, which permitted Teekay LNG to operate the vessels with a reduced average number of crew on board and reduce the amount of repair and maintenance activities performed; and
 - an increase of \$2.2 million due to the Polar Spirit being off-hire for 47 days in 2015 for a scheduled dry docking; partially offset by
 - a decrease of \$4.5 million due to a revenue deferral relating to Teekay LNG's six LPG carriers on charter to Skaugen; and
 - a decrease of \$2.0 million for Teekay LNG's Spanish LNG carriers primarily due to a performance claim related to the Hispania Spirit recorded in the fourth quarter of 2016 and the Catalunya Spirit being off-hire for six days in the first quarter of 2016 for a scheduled in-water survey.
- Equity income related to Teekay LNG's liquefied gas carriers decreased to \$62.3 million in 2016 compared to \$84.2 million in 2015, as set forth in the table below:

(in thousands of U.S. Dollars) Year Ended December 31,

	Angola LNG Carriers	Exmar LNG Carriers	Exmar LPG Carriers	MALT LNG Carriers	RasGas 3 LNG Carriers	Total Other Equity Income
2016	15,713	9,038	13,674	4,503	19,817	(438)62,307
2015	16,144	9,332	32,733	4,620	21,527	(185)84,171
Difference	(431)	(294)	(19,059)	(117)	(1,710)	(253)(21,864)

Equity income from Teekay LNG's 50% ownership interest in Exmar LPG BVBA decreased by \$19.1 million primarily due to more vessels trading in the spot market in 2016 compared to higher fixed rates earned in 2015; the redelivery of the in-chartered vessel Odin back to its owner in November 2015; and the write-down of the Brugge Venture recorded in the fourth quarter of 2016, which was sold in January 2017. These decreases were partially offset by the deliveries to the joint venture of four LPG carrier newbuildings between September 2015 and November 2016.

The slight decrease in equity income from Teekay LNG's 52% investment in the MALT LNG carriers was primarily due to the deferral during 2016 (and which will continue through 2017) of a significant portion of the charter payments from YLNG for the Marib Spirit and Arwa Spirit LNG carriers chartered to support the LNG plant in Yemen, and a lower charter rate on the redeployment of the Methane Spirit after its original time-charter contract expired in March 2015. These decreases were partially offset by the settlement payment awarded to Teekay LNG in 2016 for the disputed contract termination relating to the Magellan Spirit, and unscheduled off-hire relating to the Woodside Donaldson to repair a damaged propulsion motor in January 2015.

The \$1.7 million decrease in equity income from Teekay LNG's 40% investment in the three RasGas 3 LNG carriers was primarily due to the scheduled maturity of the joint venture's interest rate swaps, which resulted in lower unrealized gain on non-designated derivative instruments, which was partially offset by lower combined interest expense and realized loss on non-designated derivative instruments.

Teekay LNG – Conventional Tankers

As at December 31, 2016, Teekay LNG's conventional tanker fleet included five Suezmax-class double-hulled conventional crude oil tankers and one Handymax product tanker, three of which it owns and two of which it leases under capital leases. All of Teekay LNG's conventional tankers operate under fixed-rate charters. The number of calendar-ship-days for Teekay LNG's conventional tankers decreased to 2,439 days in 2016 from 2,920 days in 2015, primarily as a result of the sales of the Bermuda Spirit and Hamilton Spirit in April 2016 and May 2016, respectively. During 2016, none of Teekay LNG's vessels in this segment were off-hire for scheduled dockings, compared to two of its vessels in this segment being off-hire for a total of 24 days for scheduled dry-dockings and another vessel being off-hire for 12 days related to a crew work stoppage during 2015.

Income (loss) from vessel operations decreased to a loss of \$21.4 million during 2016 compared to income of \$30.2 million in 2015, primarily as a result of:

- decreases of \$32.5 million due to the sales of the Bermuda Spirit and Hamilton Spirit in 2016, resulting in a loss on sale of vessels of \$27.4 million and a decrease in operating income;

- a decrease of \$11.5 million relating to the write-down of the Asian Spirit in 2016 as this vessel is classified as held for sale at December 31, 2016;

- a decrease of \$4.4 million due to lower revenues earned by the Teide Spirit relating to a profit sharing agreement between Teekay LNG and Compania Espanole de Petroleos, S.A. (or CEPSA);

- a decrease of \$3.6 million relating to the European Spirit, African Spirit and Asian Spirit upon the charterer exercising its one-year options in September 2015, November 2015 and January 2016, respectively, at lower charter rates than the original charter rates; and

- a decrease of \$2.8 million due to lower revenues earned by the Toledo Spirit in 2016 relating to a profit sharing agreement between Teekay LNG and CEPSA.

partially offset by

- an increase of \$2.5 million due to lower general and administrative expenses relating primarily to a reduced amount of business development activities in 2016.

Teekay Tankers

Recent Developments in Teekay Tankers

In October 2016, Teekay Tankers agreed to sell two Suezmax tankers, the Yamuna Spirit and Ganges Spirit. The vessels were written down to their agreed sales prices, and the resulting fourth quarter impairment in 2016 was \$6.2 million. The Ganges Spirit was delivered to its buyer in January 2017 and the Yamuna Spirit was delivered to its buyer in March 2017.

In September 2016, Teekay Tankers agreed to sell one Medium Range (or MR) tanker, the Hugli Spirit, and the sale was completed in November 2016. The vessel was written down to its agreed sales price in the third quarter of 2016.

On August 8, 2016, Teekay Tankers completed the sale of one MR tanker, the Teesta Spirit, for \$14.0 million. Teekay Tankers recognized a write-down and a loss on sale of the vessel totaling \$6.6 million in 2016.

On July 31, 2015, Teekay Tankers acquired the ship-to-ship transfer business (or TMS, previously referred to as SPT) from a company jointly owned by Teekay and Skaugen, for an aggregate purchase price of approximately \$47.3 million (including \$1.8 million for working capital). TMS provides a full suite of ship-to-ship transfer services in the oil, gas and dry bulk industries. In addition to full service lightering and lightering support, it also provides consultancy, terminal management and project development services. TMS owns a fleet of four STS support vessels and has two in-chartered Aframax tankers. In connection with the TMS acquisition, in July 2015, Teekay Tankers issued approximately 6.5 million shares of Class B common stock to Teekay, for net proceeds of \$45.5 million. These shares of Class B common stock were priced at \$6.99 per share.

Operating Results – Teekay Tankers

The following table compares Teekay Tankers' operating results and number of calendar-ship-days for its vessels for 2016 and 2015, and compares its net revenues (which is a non-GAAP financial measure) for 2016 and 2015, to revenues, the most directly comparable GAAP financial measure, for the same periods.

(in thousands of U.S. dollars, except calendar-ship-days)	Year Ended	
	December 31,	
	2016	2015
Revenues	526,896	504,347
Voyage expenses	(55,241)	(19,566)
Net revenues	471,655	484,781
Vessel operating expenses	(182,598)	(130,775)
Time-charter hire expense	(59,647)	(77,799)
Depreciation and amortization	(104,149)	(71,429)
General and administrative expenses	(18,211)	(16,694)
Asset impairments	(20,462)	—
(Loss) gain on sale of vessels	(132)	771
Restructuring charges	—	(4,772)
Income from vessel operations	86,456	184,083
Equity income	13,101	14,411
Calendar-Ship-Days ⁽¹⁾		
Conventional Tankers	19,303	16,636

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

Tanker Market

Tanker rates in 2016 softened from the highs seen in 2015, yet remained in line with the 10-year average as a result of ongoing positive demand fundamentals. Global oil demand remained strong in 2016 with growth of 1.5 million barrels per day (mb/d), which is 0.4 mb/d higher than the 10-year average. Global oil supply was also strong, with record high OPEC production of 32.6 mb/d. However, unexpected supply outages in Nigeria put pressure on mid-sized tanker demand in the middle of the year. Oil prices remained in the mid-\$40 per barrel range for most of 2016 before ticking up in December as OPEC firmed plans for production cuts as a means to rebalance oil markets. While ongoing low prices throughout the year provided some support for tonne-mile demand through strategic and commercial stockpiling programs, record high onshore stock levels towards the second half of the year presented some negative pressure for import requirements as refiners struggled to manage bulging stockpiles. Tanker fleet growth also created some downside pressure to rates towards the second half of the year as crude tanker fleet growth reached 6% scrapping dipped to the lowest level since 1995.

Looking ahead, we anticipate 2017 to present some headwinds to the crude tanker freight market. Fleet growth is forecast to be approximately 4.5%, which is slightly lower than 2016 but in-line with the ten-year average. However, the majority of fleet growth in 2017 will come from the mid-sized segments, with mid-size fleet growth expected to be approximately 5%. The outlook for 2018 is more positive given a lack of ordering and the expectation for increased scrapping due to an aging fleet alongside changes to the regulatory landscape.

Global oil demand is forecast to grow by 1.4 mb/d in 2017 (average of the International Energy Agency, U.S. Energy Information Administration, and OPEC forecasts), which is similar growth to 2016 and above the ten-year average growth rate of 1.1 mb/d. On the supply side, OPEC production cuts of approximately 1.2 mb/d, with the majority of cuts (approximately 0.8 mb/d) coming from Middle East OPEC producers, will be negative for overall crude volumes available for transport. While OPEC production cuts may continue through the year, non-OPEC production increases of approximately 0.3 mb/d are expected as firming oil prices encourage more drilling, particularly in the US. The result could benefit mid-sized segments as they find some support from increased tonne-mile demand as supply in the Atlantic basin continues to grow. In addition, the Brent - Dubai spread has narrowed considerably as a result of OPEC cuts, and many crude buyers are sourcing Brent-benchmarked crudes as they become more economically attractive.

These price / supply factors could offset some of the headwinds that face the crude tanker market in 2017 as they have the potential to introduce volatility into regional tanker demand, which is positive for spot tanker rates.

In summary, we anticipate 2017 will present some headwinds to crude tanker rates due to cuts to OPEC production, rising oil prices, and fleet growth. However, we believe this dip in the current market cycle will be relatively short and shallow. We expect that lower fleet growth and a more balanced oil market from 2018 onward will result in a market improvement in that period. In addition, lower fleet growth, strong oil demand growth, particularly in Asia, and a potential increase in long-haul movements from the Atlantic basin to the Pacific basin is expected to provide support towards the next market upturn.

Teekay Tankers – Conventional Tankers

As at December 31, 2016, Teekay Tankers owned 43 double-hulled conventional oil tankers and four ship-to-ship lightering support vessels, time-chartered in six Aframax tankers and one LR2 product tanker from third parties and owned a 50% interest in one VLCC.

The calendar ship days increased in 2016 compared to 2015 primarily due to the full year of operations of the 12 Suezmax tankers, two LR2 product tankers and three Aframax tanker that Teekay Tankers acquired during 2015, partially offset by the net movement of in-charter tankers during 2015 and 2016 and the sale of two MR product tankers in 2015 and 2016.

Income from vessel operations decreased to \$86.5 million in 2016 compared to \$184.1 million in 2015, primarily as a result of:

- a decrease of \$99.8 million due to lower average realized rates earned by our Suezmax, Aframax, LR2 and MR tankers trading in the spot tanker market in 2016 compared to 2015;
 - a decrease of \$20.5 million due to write-downs of two MR product tankers and two Suezmax tankers to their respective sales prices in 2016;
 - a decrease of \$6.0 million due to increases in amortization of dry-docking costs during 2016 resulting from high dry-docking activity during the second half of 2015; and
 - a decrease of \$3.6 million due to in-process revenue contract amortization that was recognized in revenue in late 2015 and fully amortized in the first quarter of 2016;
- partially offset by
- an increase of \$15.8 million due to increased revenue days during 2016 due to fewer net off-hire days in 2016 and an additional revenue day as 2016 is a leap year;
 - an increase of \$9.6 million due to higher rates earned from out-chartered Aframax tankers during 2016;
 - a net increase of \$4.4 million due to results from the ship-to-ship transfer business which Teekay Tankers acquired during the third quarter of 2015; and
 - a net increase of \$3.8 million due to lower pool management fees, commissions, off-hire bunker and other expenses in 2016 compared to 2015, due primarily to lower average TCE rates.

Equity income decreased to \$13.1 million in 2016 from \$14.4 million for 2015 primarily due to:

- a decrease of \$3.8 million due to lower equity earnings from TIL resulting from overall lower realized average spot rates earned in 2016 compared to 2015, partially offset by an increase resulting from Teekay Tankers' increased ownership interest in TIL to 11.31% in 2016 as compared to 10.20% in 2015;

partially offset by

- an increase of \$1.3 million due to higher equity earnings from Teekay Tankers' 50% interest in Teekay Tankers Operations Ltd. (or TTOL), primarily relating to its share of cancellation fees paid to Anglo-Eastern during the first quarter of 2015 for acquiring its 49% share in Teekay Marine Ltd. and the timing of vessels which transitioned from the Gemini Suezmax pool to the Teekay Suezmax RSA in 2015. This was partially offset by overall lower realized average spot rates earned in 2016 compared to 2015; and

- an increase of \$1.1 million due to higher equity earnings from the High-Q joint venture primarily resulting from profit share recognized in the second quarter of 2016 as VLCC rates averaged above certain thresholds, triggering a profit sharing with the customer.

Teekay Parent

Recent Developments in Teekay Parent

The Banff FPSO has been operating on the Banff field since its delivery nearly 20 years ago under a charter contract with Canadian Natural Resources (or CNR) that permitted CNR to terminate the contact at any time with six months'

notice. In January 2017, Teekay Parent entered into a contract amendment with CNR to ensure the unit will stay on the current field at least until the third quarter of 2018 and to revise the charter rate structure to include a variable component (through an oil price and oil production tariff) in addition to a fixed charter rate.

In the first half of 2016, the Hummingbird Spirit FPSO was operating in the latter part of its charter contract with Centrica Energy (or Centrica) whereby Centrica could terminate the contract at any time with 90 days' notice. In June 2016, Teekay Parent entered into a contract amendment with Centrica to extend the firm period to September 2017 (with Centrica's right to terminate the contract no earlier than March 1, 2017) in exchange for a lower fixed charter rate and an oil price tariff. The contract amendment took effect on July 1, 2016. In February 2017, Teekay Parent entered into a new heads of terms with Centrica to extend the contract for an additional three years from October 2017 to September 2020. This contract extension is expected to be completed during the second quarter of 2017.

In the fourth quarter of 2015, Teekay Parent secured a 12-month, charter-out contract for the Shoshone Spirit VLCC at \$49,000 per day, which was scheduled to expire in December 2016. In the second quarter of 2016, Teekay Parent entered into an agreement to sell the Shoshone Spirit VLCC to a third party and the vessel was written down to its net realizable value as a result of the expected sale. The vessel was subsequently sold and delivered to its new owner in October 2016.

In December 2014, the Board of Directors of Teekay Offshore's general partner approved the acquisition of the Petrojarl Knarr FPSO from Teekay Parent, subject to the unit completing certain operational tests and commencing its charter contract at full rate. The Petrojarl Knarr FPSO achieved first oil and commenced its charter contract with BG Norge Limited (or BG) in March 2015 on a partial charter rate. In June 2015, the Petrojarl Knarr FPSO completed its operational testing and commenced its full charter rate and on July 1, 2015, Teekay Parent completed the sale of the Petrojarl Knarr FPSO to Teekay Offshore. Teekay Offshore has included the results of the Petrojarl Knarr FPSO from March 9, 2015, when it commenced operations.

Operating Results – Teekay Parent

The following table compares Teekay Parent's operating results and number of calendar-ship-days for its vessels for 2016 and 2015, and compares its net revenues (which is a non-GAAP financial measure) for 2016 and 2015, to revenues, the most directly comparable GAAP financial measure, for the same periods.

(in thousands of U.S. dollars, except calendar-ship-days)	Offshore Production		Conventional Tankers		Other and Corporate G&A		Teekay Parent Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues	231,435	277,842	32,967	65,777	76,111	75,547	340,513	419,166
Voyage expenses	(269)	(36)	(287)	(763)	(2,879)	(808)	(3,435)	(1,607)
Net revenues	231,166	277,806	32,680	65,014	73,232	74,739	337,078	417,559
Vessel operating expenses	(159,084)	(200,338)	(10,468)	(16,051)	(26,576)	(24,294)	(196,128)	(240,683)
Time-charter hire expense	(33,366)	(29,978)	(23,166)	(38,991)	(48,452)	(44,448)	(104,984)	(113,417)
Depreciation and amortization	(70,855)	(69,508)	(1,717)	(2,852)	449	451	(72,123)	(71,909)
General and administrative expenses ⁽¹⁾	(14,099)	(17,261)	(809)	(2,136)	(10,707)	1,221	(25,615)	(18,176)
Net loss on sale of vessels and equipment	(110)	(948)	(12,487)	—	—	—	(12,597)	(948)
Restructuring charges	(1,962)	—	—	—	(20,165)	(2,654)	(22,127)	(2,654)
(Loss) income from vessel operations	(48,310)	(40,227)	(15,967)	4,984	(32,219)	5,015	(96,496)	(30,228)
Equity (loss) income	(575)	(12,196)	5,089	16,712	(1,838)	(1,101)	2,676	3,415
Calendar-Ship-Days ⁽²⁾								
FPSO Units	1,098	1,095	—	—	—	—	1,098	1,095
Conventional Tankers	—	—	1,278	2,516	—	—	1,278	2,516
Gas carriers	—	—	—	—	732	730	732	730
FSO Units	366	365	—	—	732	730	1,098	1,095
Shuttle Tankers	732	730	—	—	—	—	732	730
Bunker Barges	—	—	—	—	672	200	672	200

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

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

Teekay Parent – Offshore Production

Offshore Production consists primarily of our FPSO units. As at December 31, 2016, we had a direct interest in three 100% owned FPSO units.

The Hummingbird Spirit FPSO charter contract includes an incentive compensation component based on the oil price. In addition, the Petrojarl Foinaven FPSO unit's charter contract includes incentives based on total oil production for the year, certain operational measures, and the average annual oil price. The decline in the price of oil has negatively impacted our incentive compensation under these contracts and may negatively impact our future revenues if oil prices remain at or fall below current levels.

The number of Teekay Parent's FPSO calendar-ship days for the year ended December 31, 2016 were consistent compared to the same period last year.

Loss from vessel operations increased to \$48.3 million during 2016 compared to \$40.2 million in 2015, primarily as a result of:

- an increase in loss of \$13.7 million related to the Petrojarl Banff FPSO unit as a result of off-hire in the first quarter of 2016 and higher repairs and maintenance costs due to the temporary loss of two mooring lines in the first quarter of 2016;

- an increase in loss of \$5.5 million related to the Hummingbird FPSO primarily due to the contract amendment described above that took effect on July 1, 2016, partially offset by lower operating expenses in 2016; and

- an increase in loss of \$2.0 million due to restructuring charges primarily relating to the reorganization of the Company's FPSO business in 2016;

partially offset by

- a decrease in loss of \$9.1 million primarily due to legal costs incurred in 2015 relating to repairs and upgrades to the Petrojarl Banff FPSO after the storm event in December 2011, and cost-saving initiatives in 2016; and

- a decrease in loss of \$4.8 million primarily related to the Petrojarl Foinaven FPSO, primarily due to the shutdown of the unit in 2015 for maintenance and lower operating costs in 2016.

Teekay Parent – Conventional Tankers

As at December 31, 2016, Teekay Parent chartered-in two conventional tankers from third parties. The average fleet size (including in-chartered vessels), as measured by calendar-ship-days, decreased in 2016 compared with 2015 due to the sale of one VLCC, redeliveries of three Aframax in-chartered vessels to Teekay Offshore and one Aframax in-chartered vessels to Teekay Tankers. The collective impact from the noted fleet changes are referred to below as the Net Fleet Reductions.

Loss from vessel operations for Teekay Parent's Conventional Tankers was \$16.0 million in 2016 compared to income from vessel operations of \$5.0 million in 2015, primarily as a result of:

- a decrease in income of \$12.5 million due to the write-down in 2016 of one VLCC to its agreed sales price;

- a decrease in income of \$5.8 million due to lower average realized TCE rates in 2016 compared to 2015;

- a net decrease in income of \$5.7 million due to cancellation fees paid by Teekay Parent to Teekay Offshore in 2016 and 2015 related to the termination of the time-charter contracts of two Aframax tankers, partially offset by cancellations paid to Teekay Parent from Teekay Offshore and Teekay Tankers in 2015 related to the termination of bareboat contracts of two Aframax tankers; and

- a decrease in income of \$2.6 million due to a higher time-charter hire rate for an Aframax in-charter in the first quarter of 2016;

partially offset by

- a net increase in income of \$4.0 million due to lower vessel operating expenses from the termination of bareboat contracts of two Aframax tankers that Teekay Parent in-chartered from Teekay Offshore and the sale of the VLCC

- and lower time-charter hire expense from the redeliveries of three in-chartered conventional tankers to Teekay Offshore and Teekay Tankers, partially offset by the loss of revenue due to the redeliveries and sale of those tankers; and

- an increase in income of \$2.0 million due to a distribution received from the Gemini Pool in 2016.

Teekay Parent – Other and Corporate G&A

As at December 31, 2016, Teekay Parent had two chartered-in LNG carriers owned by Teekay LNG, two chartered-in FSO units owned by Teekay Offshore and one chartered-in bunker barge.

Loss from vessel operations was \$32.2 million for the year ended December 31, 2016 compared to income from vessel operations \$5.0 million for the year ended December 31, 2015, primarily as a result of:

- an increase in loss of \$32.8 million primarily due to lower revenues earned as a result of the terminations of time charters and the lay-up of the Arctic Spirit and Polar Spirit LNG carriers in 2016;
 - an increase in loss of \$13.9 million due to business development fees received from Teekay Offshore in 2015 in respect of the Petrojarl Knarr FPSO unit, the Arendal Spirit UMS and the six on-the-water, long distance towing and offshore installation vessels;
 - an increase in loss of \$2.7 million primarily due to office closure costs and seafarers' severance amounts relating to tug businesses in Western Australia in 2016; and
 - an increase in loss of \$1.6 million due to fees received from TIL in 2015 for our arrangement of the acquisition of certain of its vessels, partially offset by fees received relating to the sale of two vessels in 2016; partially offset by
- a decrease in loss of \$5.4 million primarily due to lower restructuring charges relating to the reorganization of our marine operations and corporate services in 2015, and lower general and administrative expenses as a result of cost saving initiatives in 2016; and

a decrease in loss of \$9.4 million primarily due to earnings generated on technical, crew and commercial management services provided for an increased fleet size in 2016.

Equity income was \$2.7 million in 2016 compared to equity income of \$3.4 million in 2015, primarily due to lower equity earnings from Petrotrans Holdings as a result of the gain on the sale of TMS from the joint venture to Teekay Tankers in 2015, and lower equity earnings from TIL resulting from lower realized average spot rates in 2016, partially offset by higher equity earnings due to a deferred tax asset write-down and unrealized foreign exchange losses relating to Teekay Parent's 43% investment in Sevan in 2015.

Teekay Offshore

Recent Developments in Teekay Offshore

In January 2017, Teekay Offshore was awarded a new five-year shuttle tanker contract of affreightment (or CoA), plus extension options, with a consortium of oil companies to service a development located in the UK Central North Sea. The CoA is expected to commence during the first quarter of 2018 and require the use of shuttle tankers from Teekay Offshore's existing CoA shuttle tanker fleet. The CoA will require the use of approximately 0.5 shuttle tanker equivalents per annum.

In September 2016, Teekay Offshore was awarded a new three-year shuttle tanker CoA, plus extension options, with BP plc, Royal Dutch Shell and OMV Group, to service the new Glen Lyon FPSO unit located west of Shetland in the North Sea. This CoA is expected to commence in mid-2017 and require the use of approximately two shuttle tankers from Teekay Offshore's existing CoA shuttle tanker fleet.

In June 2016, as part of its financing initiatives, Teekay Offshore canceled the construction contracts for its two UMS newbuildings. As a result, Teekay Offshore incurred a \$43.7 million write-down related to these two UMS newbuildings for the year ended December 31, 2016, which is included in Asset Impairments in Teekay's consolidated statements of income. In addition, Teekay Offshore accrued for potential damages resulting from the cancellations and reversed contingent liabilities previously recorded that were relating to the delivery of the UMS newbuildings. This net loss provision of \$23.4 million for the year ended December 31, 2016 is reported in Other (loss) income in Teekay's consolidated statements of income. The newbuilding contracts are held in separate subsidiaries of Teekay Offshore and obligations of these subsidiaries are non-recourse to Teekay Offshore. For additional information, please read Item 18 - Financial Statements: Note 15d. Commitments and Contingencies.

In April 2016, during the process to lift off the gangway connecting the Arendal Spirit to an FPSO unit, the gangway of the Arendal Spirit suffered damage. The gangway was replaced and underwent extensive testing and the unit recommenced operations in early-July 2016. As a result of this incident, Teekay Offshore reversed contingent liabilities previously recorded that were subject to material defects of the UMS.

In November 2016, the Arendal Spirit UMS experienced an operational incident relating to its dynamic-positioning system. As a result of this operational incident, and a gangway incident that occurred in April 2016, the charterer, Petrobras, initiated an operational review. Until the results of the review are available, Petrobras has suspended its charter hire payments from early-November 2016. Teekay Offshore has completed an investigation to identify the cause of the incidents and has implemented corrective measures. Teekay Offshore is working to address Petrobras' concerns to bring the unit back into operation as soon as possible.

In September 2016, Teekay Offshore took delivery of the ALP Striker, the first of four state-of-the-art SX-157 Ulstein Design ultra-long distance towing and offshore installation newbuildings being constructed by Niigata Shipbuilding & Repair in Japan. In connection with the delivery, Teekay Offshore received cash compensation from the shipyard totaling approximately \$7 million due to the delayed delivery of the vessel. In April 2017, Teekay Offshore received additional delayed delivery cash compensation of \$24.3 million for the remaining three towing and offshore

installation newbuildings, which are scheduled to deliver during 2017.

In March 2016, Teekay Offshore terminated an above-market time-charter contract of the Kilimanjaro Spirit conventional tanker with a subsidiary of Teekay. Subsequently, Teekay Offshore sold the Kilimanjaro Spirit and the Fuji Spirit conventional tankers for net proceeds of approximately \$50 million. Related to the sale of these vessels, Teekay Offshore is chartering back both vessels for a period of three years with an additional one-year extension option. One vessel is fixed on a two-year time-charter-out contract that commenced during the second quarter of 2016, and the other vessel is trading in the spot conventional tanker market.

In November 2016, Teekay Offshore sold a 1995-built shuttle tanker, the Navion Europa, for net proceeds of \$14.4 million, for which Teekay Offshore recorded a gain on sale of \$6.8 million in a 67%-owned subsidiary.

Operating Results – Teekay Offshore

The following table compares Teekay Offshore's operating results and number of calendar-ship-days for its vessels for 2016 and 2015, and compares its net revenues (which is a non-GAAP financial measure) for 2016 and 2015, to revenues, the most directly comparable GAAP financial measure, for the same periods.

	Teekay Offshore Total	
(in thousands of U.S. dollars, except calendar-ship-days)_____	2016	2015
Revenues	1,152,390	1,229,413
Voyage expenses	(80,750)	(98,006)
Net revenues	1,071,640	1,131,407
Vessel operating expenses	(364,441)	(378,480)
Time-charter hire expense	(75,485)	(51,750)
Depreciation and amortization	(300,011)	(274,599)
General and administrative expenses	(56,122)	(72,613)
Asset impairments and gain on sale of vessels	(40,079)	(69,998)
Restructuring charges	(4,649)	(568)
Income from vessel operations	230,853	283,399
Equity income	17,933	7,672
Calendar-Ship-Days ⁽¹⁾		
Shuttle Tankers	11,913	12,319
FPSO Units	2,562	2,395
FPSO Units	2,196	2,122
Conventional Tankers	732	1,432
UMS	366	318
Towage vessels	2,307	1,606

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

As of December 31, 2016, Teekay Offshore's FPSO fleet consisted of the Petrojarl Knarr, the Petrojarl Varg, the Cidade de Rio das Ostras (or Rio das Ostras), the Piranema Spirit, the Voyageur Spirit, and the Petrojarl I FPSO units, all of which Teekay Offshore owns 100%, and the Itajai and Libra FPSO units, of which Teekay Offshore owns 50%. One equity accounted FPSO unit, the Libra FPSO unit owned through Teekay Offshore's 50/50 joint venture with Odebrecht Oil & Gas S.A. (or OOG) has completed its conversion into an FPSO unit and is en route to the Libra field located in the Santos Basin offshore Brazil where it is scheduled to commence operations in mid-2017. The Petrojarl I FPSO unit is currently undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard (or Damen) in the Netherlands and is scheduled to commence operations under a five-year fixed-rate charter contract with Queiroz Galvão Exploração e Produção SA (or QGEP) at the end of 2017. Teekay Offshore acquired the Petrojarl Knarr FPSO unit from Teekay in July 2015.

In late-2015, Teekay Offshore received a termination notice for the Petrojarl Varg FPSO charter contract from Repsol S.A. (or Repsol), based on a termination right that was specific to the Petrojarl Varg FPSO contract. In accordance with the termination provision of the charter contract, the charterer ceased paying the capital component of the charter hire six months prior to the redelivery date, which redelivery occurred at the end of July 2016.

FPSO units provide production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate FPSO contracts, some of which also include certain incentive compensation or penalties based on the level of oil production and other operational measures. Historically, the utilization of FPSO units and other vessels in the North Sea, where the Voyageur Spirit and

Petrojarl Knarr operate, is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to vessels and the offshore oil platforms, which generally reduces oil production. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Brazilian Real, and British Pound may result in significant decreases or increases, respectively, in our revenues and vessel operating expenses.

The average number of Teekay Offshore's FPSO units increased in 2016 compared to 2015, due to the acquisition of the Petrojarl Knarr on July 1, 2015.

As at December 31, 2016, the shuttle tanker fleet consisted of 30 vessels that operate under fixed-rate CoAs, time charters and bareboat charters, three shuttle tanker newbuildings and the HiLoad DP unit, which is currently in lay-up. Of these 34 shuttle tankers, six are owned through 50% owned subsidiaries and three were chartered-in. The remaining vessels were owned 100% by Teekay Offshore. In November 2016, Teekay Offshore sold a 1995-built shuttle tanker, the Navion Europa. In January 2016, Teekay Offshore sold a 1992-built shuttle tanker, the Navion Torinita, which was in lay-up and classified as held for sale on Teekay's consolidated balance sheet as of December 31, 2015. In July 2016, Teekay Offshore agreed to in-charter a shuttle tanker, the Grena Knutsen, on a three-year charter contract for its North Sea fleet commencing in September 2016. All of Teekay Offshore's operating shuttle tankers, with the exception of the HiLoad DP unit, provide transportation services to energy companies in the North Sea, Brazil and the East Coast of Canada. Teekay Offshore's shuttle tankers occasionally service the conventional spot tanker market. Teekay Offshore commenced the FSO conversion of the Randgrid shuttle tanker during the second quarter of 2015. During the first quarter of 2015, Teekay Offshore sold the Navion Svenita shuttle tanker. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Euro and Brazilian Real may result in significant decreases or increases, respectively, in vessel operating expenses.

The average size of Teekay Offshore's owned shuttle tanker fleet decreased in 2016 compared to 2015, primarily due to the sales of the Navion Svenita, the Navion Torinita and the Navion Europa in March 2015, January 2016 and November 2016, respectively, and the commencement of the FSO conversion of the Randgrid in June 2015. Three shuttle tanker newbuildings have been excluded from calendar-ship-days until they are delivered to Teekay Offshore. The average size of Teekay Offshore's chartered-in shuttle tanker fleet increased in 2016 compared to 2015 primarily due to the in-chartering of two shuttle tankers, the Jasmine Knutsen and the Heather Knutsen, for the East Coast of Canada contract, which commenced in June 2015, the in-chartering of the Grena Knutsen for three years which commenced in September 2016 and increased spot in-chartering of shuttle tankers, partially offset by redelivery of the Grena Knutsen and Aberdeen to their owners in June 2015 and December 2016, respectively. The Grena Knutsen was subsequently rechartered in by Teekay Offshore in September 2016.

As of December 31, 2016, Teekay Offshore's FSO fleet consisted of five units that operate under fixed-rate time charters or fixed-rate bareboat charters in which Teekay Offshore's ownership interest ranged from 89% to 100%, and one shuttle tanker, the Randgrid, currently undergoing conversion into an FSO unit, in which Teekay Offshore's ownership interest increased from 67% to 100% during the third quarter of 2015. The Navion Saga FSO unit was held for sale as at December 31, 2016. FSO units provide an on-site storage solution to oil field installations that have no oil storage facilities or that require supplemental storage. Teekay Offshore's revenues and vessel operating expenses for the FSO segment are affected by fluctuations in currency exchange rates, as a significant component of revenues are earned and vessel operating expenses are incurred in Norwegian Kroner and Australian Dollars for certain vessels. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner or Australian Dollar may result in significant decreases or increases, respectively, in revenues and vessel operating expenses.

The average number of Teekay Offshore's FSO units increased in 2016 compared to 2015, due to the commencement of the FSO conversion of the Randgrid on June 9, 2015. No earnings are expected from the Randgrid until its conversion is completed in mid-2017, when the unit is scheduled to commence operations under a three-year time-charter contract with Statoil ASA, which includes 12 additional one-year extension options. Additionally, the Navion Saga FSO unit was redelivered to Teekay Offshore in October 2016 and was classified as held for sale as at December 31, 2016, resulting in a \$1.0 million write-down of the unit.

As at December 31, 2016, Teekay Offshore's towage vessel fleet consisted of seven long-distance towing and offshore installation vessels and three long-distance towing and offshore installation vessel newbuildings, which are scheduled to deliver during 2017. Teekay Offshore owns a 100% interest in each of the vessels in its towage fleet. Long-distance towing and offshore installation vessels are used for the towage, station-keeping, installation and decommissioning of

large floating objects such as exploration, production and storage units, including FPSO units, floating liquefied natural gas (or FLNG) units and floating drill rigs.

The average number of Teekay Offshore's towing and offshore installation vessels increased in 2016 compared to 2015, due to the acquisition of three vessels during the first quarter of 2015, two vessels during the second quarter of 2015, one vessel during the third quarter of 2015, and the delivery of Teekay Offshore's first towage newbuilding vessel in September 2016.

As at December 31, 2016, Teekay Offshore's UMS fleet consisted of one unit, the Arendal Spirit, in which Teekay Offshore owns a 100% interest. During the second quarter of 2016, Teekay Offshore canceled the UMS construction contracts for its two UMS newbuildings, resulting in a write-down of the UMS newbuildings to \$nil. The UMS unit is used primarily for offshore accommodation, storage and support for maintenance and modification projects on existing offshore installations, or during the installation and decommissioning of large floating exploration, production and storage units, including FPSO units, FLNG units and floating drill rigs. Teekay Offshore's UMS unit is available for world-wide operations, excluding operations within the Norwegian Continental Shelf, and includes DP3 keeping systems that are capable of operating in deep water and harsh weather.

As at December 31, 2016, Teekay Offshore's conventional tanker fleet consisted of two in-chartered conventional tankers. In March 2016, Teekay Offshore terminated the time-charter contract of the Kilimanjaro Spirit with a subsidiary of Teekay and received an early termination fee of \$4.0 million from Teekay. Subsequently, Teekay Offshore sold the Kilimanjaro Spirit and the Fuji Spirit conventional tankers. The Kilimanjaro Spirit was renamed Blue Pride and the Fuji Spirit was renamed Blue Power. As part of the sales, Teekay Offshore is in-chartering these vessels for three years with additional one-year extension options. One vessel is trading on a fixed two-year time-charter-out contract which commenced during the second quarter of 2016 and the other vessel is trading in the spot conventional tanker market.

In December 2015, Teekay Offshore sold its 100% interest in SPT Explorer L.L.C. and Navigator Spirit L.L.C., which own the SPT Explorer and the Navigator Spirit conventional tankers, respectively, to Teekay Tankers.

Income from vessel operations for Teekay Offshore's business decreased to \$230.9 million in 2016 compared to \$283.4 million in 2015, primarily as a result of:

FPSO Fleet

- a decrease of \$46.6 million for the Petrojarl Varg FPSO unit, due to the termination of the charter contract by Repsol effective at the end of July 2016, partially offset by lower vessel operating expenses as the unit is now in layup;
- a decrease of \$4.4 million relating to the restructuring costs associated with the reorganization of the FPSO business to create better alignment with the offshore operations and resulting in a lower cost organization going forward; and
- a decrease of \$2.9 million relating to the Voyageur Spirit FPSO unit due to a lower production bonus earned in 2016 compared to 2015, partially offset by lower repair and maintenance costs reimbursed by the charterer in 2016;

partially offset by

- an increase of \$28.2 million due to the Petrojarl Knarr FPSO unit commencing operations on March 9, 2015; and
- an increase of \$1.9 million for the Rio das Ostras FPSO unit, primarily due to higher incentive compensation and a bonus earned from the charterer of the unit for unused maintenance days under the service contract during 2016.

Shuttle Tanker Fleet

- a decrease of \$22.7 million due to the expiration in April 2015 of a long-term contract at the Heidrun field serviced by Teekay Offshore's CoA fleet;
- a decrease of \$19.5 million due to higher depreciation expense related to the change in the estimated useful life of the shuttle component for all shuttle tankers from 25 to 20 years, the accelerated amortization of the tanker component for eight older shuttle tankers commencing the first quarter of 2016, partially offset by a write-down of the carrying values of seven shuttle tankers during 2015, and the Navion Europa shuttle tanker being fully amortized during the second quarter of 2015;
- a decrease of \$17.9 million due to the redelivery of two shuttle tankers to Teekay Offshore in April 2015 and June 2016, respectively, as they completed their time-charter-out agreement;
- a decrease of \$9.7 million due to fewer opportunities to trade excess shuttle tanker capacity in the conventional tanker spot market;
- a decrease of \$5.2 million due to the in-chartering of the Grena Knutsen starting September 2016; and
- a decrease of \$4.2 million related to higher repair and maintenance activities on the Navion Anglia shuttle tanker to prepare the vessel to trade in Teekay Offshore's CoA fleet in the North Sea as the vessel was redelivered to Teekay Offshore in June 2016 due to the completion of its time-charter-out agreement in Brazil;

partially offset by

- an increase of \$69.7 million due to a write-down of shuttle tankers of \$66.7 million in 2015 and \$6.7 million gains on the sales of vessels in 2016, partially offset by a write-down of a shuttle tanker of \$2.1 million in 2016 and a \$1.6 million gain on the sale of a shuttle tanker in 2016;
- an increase of \$15.9 million due to an increase in rates as provided in certain contracts in Teekay Offshore's time-chartered-out fleet and an increase in revenues in Teekay Offshore's CoA fleet due to higher average rates and higher fleet utilization;
- an increase of \$10.8 million due to an increase in net revenues from the commencement of the East Coast of Canada contract in June 2015, partially offset by lower reimbursable expenses in relation to this contract and the in-chartering of three shuttle tankers for this contract, one of which was redelivered by Teekay Offshore in August 2015 and was replaced by Teekay's own shuttle tanker, the Navion Hispania;
- an increase of \$4.0 million due to the redeliveries by Teekay Offshore of the Grena Knutsen and Aberdeen shuttle tankers in June 2015 and December 2016, respectively, partially offset by increased spot in-chartering of shuttle tankers in 2016; and
- an increase of \$3.2 million due to lower shuttle tanker operating expenses due to lower fleet and onshore overhead mainly related to lower crew training costs in 2016, and the strengthening of the U.S. Dollar against the Norwegian

Kroner, Euro and Brazilian Real, partially offset by higher crew costs relating to a change in crew composition.
FSO Fleet

• an increase of \$5.6 million due a reduction in operating expenses and amortization expense due to the commencement of the FSO conversion of the Randgrid in June 2015; and

• an increase of \$4.0 million due to the Navion Europa shuttle tanker acting as a substitute vessel while the Apollo Spirit FSO unit was undergoing a dry dock in the third quarter of 2016; and

• an increase of \$2.5 million due to lower depreciation expense due to dry-dock costs for the Navion Saga shuttle tanker being fully depreciated during the fourth quarter of 2015.

UMS Fleet

a decrease of \$55.6 million relating to the UMS fleet, primarily due to the write-downs relating to the cancellation of the two UMS newbuilding contracts, an increase in spare parts and consumables in 2016 due to these costs being covered under warranty during 2015, and lower revenues due to the unit being off-hire from mid-April 2016 until early-July 2016 due to damage suffered to the gangway and the suspension of charter hire payments since early-November 2016 due to an operational review being conducted by the charterer; and
 a decrease of \$2.9 million due to higher depreciation expense related to the commencement of the charter contract of the Arendal Spirit UMS in June 2015.

Towage Fleet

a decrease of \$8.7 million relating to the towage fleet primarily due to a decrease in rates and utilization of the towing and offshore installation vessels due to volatility in the offshore market, an increase in operating expenses due to the delivery of the ALP Striker in September 2016, an increase in repairs and maintenance expenses due to engine overhauls on the ALP Winger and ALP Centre during the first quarter of 2016, and an increase in crew costs compared to 2015 due to higher crew levels, partially offset by a more cost-efficient crew composition in 2016; and
 a decrease of \$3.7 million due to higher depreciation expense related to the acquisition of the six towing and offshore installation vessels during 2015.

Conventional Tanker Fleet

a net decrease of \$10.7 million in 2016 due to the sale of the Kilimanjaro Spirit and Fuji Spirit in March 2016, and the subsequent in-chartering of the Blue Power and Blue Pride; and
 a decrease of \$5.4 million for 2016 due to the sale of the Explorer Spirit and Navigator Spirit in December 2015; partially offset by
 an increase of \$5.8 million relating to a \$4.0 million termination fee received from Teekay due to the early termination of the time-charter-out contract for the Kilimanjaro Spirit in March 2016 and net termination fees of \$1.8 million paid to Teekay due to the early terminations of bareboat and time-charter contracts for the SPT Explorer, Navigator Spirit, and Fuji Spirit in December 2015; and
 an increase of \$3.9 million due to a write-down of two conventional tankers in 2015.

General and administrative Expenses

an increase of \$13.2 million due to lower general and administrative expenses from lower management fees relating to Teekay Offshore's shuttle tanker and FSO fleets primarily from cost saving initiatives, and a decrease in development fees to Teekay of \$4.2 million in connection with Teekay Offshore's acquisition of six long-distance towing and offshore installation vessels and the Arendal Spirit UMS in 2015, partially offset by an increase in management fees due to the commencement of the charter contract of the Arendal Spirit in June 2015; and
 an increase of \$2.6 million due to lower general and administrative expenses due to (a) a decrease in business development fees paid to Teekay in 2016 compared to 2015 of \$9.7 million in connection with the 2015 acquisition for the Petrojarl Knarr FPSO and (b) the redelivery and lay up of the Petrojarl Varg FPSO unit in 2016, partially offset by the increase in general and administration expenses as a result of the acquisition of the Petrojarl Knarr FPSO unit in July 2015.

Equity income increased to \$17.9 million for 2016 compared to \$7.7 million for 2015, primarily due to increases in unrealized gains on derivative instruments relating to Teekay Offshore's investment in the Libra FPSO joint venture and the Itajai FPSO joint venture, lower repairs and maintenance expenses in 2016 due to turbine repairs made during 2015 and an insurance claim payment received during 2016 relating to these turbine repairs for the Itajai FPSO unit.

Other Consolidated Operating Results

The following table compares our other consolidated operating results for 2016 and 2015:

Year Ended
 December 31,

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(in thousands of U.S. dollars, except percentages)	2016	2015	% Change
Interest expense	(282,966)	(242,469)	16.7
Interest income	4,821	5,988	(19.5)
Realized and unrealized loss on non-designated derivative instruments	(35,091)	(102,200)	(65.7)
Foreign exchange loss	(6,548)	(2,195)	198.3
Other (loss) income	(39,013)	1,566	(2,591.3)
Income tax (expense) recovery	(24,468)	16,767	(245.9)

Interest expense. Interest expense increased to \$283.0 million in 2016, compared to \$242.5 million in 2015, primarily due to:

- an increase of \$12.4 million due to additional interest incurred by Teekay Tankers to finance the acquisition of the 12 modern Suezmax tankers which were acquired in the third quarter of 2015;
 - an increase of \$12.1 million relating to interest incurred on the capital lease obligations for the Creole Spirit and Oak Spirit commencing upon their deliveries in February 2016 and July 2016, respectively;
 - an increase of \$10.8 million primarily due to the additional issuance of \$200 million of Teekay Parent's 8.5% senior unsecured notes in November 2015, partially offset by reductions in Teekay Parent's equity margin revolving credit facility and loan facility secured by three FPSO units, and the maturity of Teekay Parent's Norwegian Kroner (or NOK) bonds in October 2015;
 - an increase of \$9.2 million due to the interest expense associated with the Petrojarl Knarr FPSO unit commencing operations in March 2015;
 - an increase of \$3.4 million due to interest expense relating to Teekay Offshore's second UMS newbuilding up until its construction contract cancellation in late-June 2016; and
 - an increase of \$2.1 million due to an increase in LIBOR on floating-rate debt, net of debt repayments during 2016 and 2015;
- partially offset by

• a decrease of \$5.2 million due to an increase in capitalized interest on Teekay Offshore's newbuildings, conversion and upgrade projects; and

• a decrease of \$3.0 million due to the maturity of Teekay Offshore's NOK 500 million senior unsecured bond in January 2016.

Realized and unrealized (losses) gains on non-designated derivative instruments. Realized and unrealized (losses) gains related to derivative instruments that are not designated as hedges for accounting purposes are included as a separate line item in the consolidated statements of income. Net realized and unrealized losses on non-designated derivatives were \$35.1 million for 2016, compared to \$102.2 million for 2015, as detailed in the table below:

	Year Ended December 31, 2016 \$	Year Ended December 31, 2015 \$
Realized (losses) gains relating to:		
Interest rate swap agreements	(87,320)	(108,036)
Interest rate swap agreement terminations	(8,140)	(10,876)
Foreign currency forward contracts	(11,186)	(21,607)
Time charter swap agreement	2,154	—
	(104,492)	(140,519)
Unrealized gains (losses) relating to:		
Interest rate swap agreements	62,446	37,723
Foreign currency forward contracts	15,833	(418)
Stock purchase warrants	(9,753)	1,014
Time charter swap agreement	875	—
	69,401	38,319
Total realized and unrealized (losses) gains on derivative instruments	(35,091)	(102,200)

The realized losses relate to amounts we actually realized for settlements related to these derivative instruments in normal course, and amounts paid to terminate interest rate swap agreement terminations. The unrealized (losses) gains on interest rate swaps for 2016 and 2015 were primarily due to changes in the forward interest rates.

During 2016 and 2015, we had interest rate swap agreements with aggregate average net outstanding notional amounts of approximately \$3.3 billion and \$3.5 billion, respectively, with average fixed rates of approximately 3.4%. Short-term variable benchmark interest rates during these periods were generally less than 2.0% and, as such, we incurred realized losses of \$87.3 million and \$108.0 million during 2016 and 2015, respectively, under the interest rate swap agreements. We also incurred realized losses of \$8.1 million during 2016, compared to losses of \$10.9 million during 2015, from the termination of interest rate swaps.

We recognized realized losses of \$11.2 million in 2016, compared to \$21.6 million in 2015 under the foreign currency forward contracts.

Effective June 1, 2016, Teekay Tankers entered into a time-charter swap for 55% of two Aframax equivalent vessels. Under such agreement, Teekay Tankers will receive \$27,776 per day, less a 1.25% brokerage commission, and pay 55% of the net revenue distribution of two Aframax

equivalent vessels employed in its Aframax revenue sharing pooling arrangement, less \$500 per day, for a period of 11 months plus an additional two months at the counterparty's option. As at December 31, 2016, the time-charter swap had a fair value of \$0.9 million which resulted in an unrealized gain of \$0.9 million. Teekay Tankers also recognized realized gains of \$2.2 million on the time-charter swap in the year ended December 31, 2016.

Primarily as a result of significant changes in long-term benchmark interest rates during 2016 and 2015, we recognized unrealized gains of \$62.4 million for 2016 compared to \$37.7 million for 2015 under the interest rate swap agreements. We recognized unrealized gains of \$15.8 million for 2016 compared to unrealized losses of \$0.4 million for 2015 under the foreign currency forward contracts.

In 2014, we and Teekay Tankers formed TIL. We and Teekay Tankers invested a total of \$50.0 million for an aggregate of 5.0 million shares of TIL's common stock, representing an initial aggregate 20% interest in TIL, as part of a \$250.0 million private placement by TIL. In addition, we and Teekay Tankers received stock purchase warrants entitling us and Teekay Tankers to purchase up to 1.5 million shares of common stock of TIL at a fixed price of \$10 per share. Alternatively, if the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, we and Teekay Tankers may also exercise the stock purchase warrants at 61.67 NOK per share using a cashless exercise procedure. During 2016, due mainly to a decrease in TIL's share price, we recognized a \$9.8 million unrealized loss on the stock purchase warrants compared to an unrealized gain of \$1.0 million for 2015, which are included in our total unrealized derivative (losses) gains. Please read "Item 18. Financial Statements: Note 14—Derivative Instruments and Hedging Activities."

Foreign Exchange Loss. Foreign currency exchange losses were \$6.5 million in 2016 compared to \$2.2 million in 2015. Our foreign currency exchange losses, substantially all of which are unrealized, were due primarily to the relevant period-end revaluation of our NOK-denominated debt and our Euro-denominated term loans, capital leases and restricted cash for financial reporting purposes and the realized and unrealized gains (losses) on our cross currency swaps. Gains on NOK-denominated and Euro-denominated monetary liabilities reflect a stronger U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses on NOK-denominated and Euro-denominated monetary liabilities reflect a weaker U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. For 2016, foreign currency exchange loss includes realized losses of \$38.6 million (2015—\$19.0 million) and unrealized gains of \$75.0 million (2015 — losses of \$89.2 million) on our cross currency swaps, and unrealized losses of \$6.8 million (2015—\$123.2 million) on the revaluation of our NOK-denominated debt.

Other (Loss) Income. Other (loss) income was a loss of \$(39.0) million in 2016 compared to income of \$1.6 million in 2015. This decrease in results was primarily due to contingent liabilities accrued related to Teekay Offshore's cancellation of the UMS construction contracts for its two remaining UMS newbuildings in 2016 (\$25.2 million), as well as a write-down of a cost-accounted investment of \$19.0 million in 2016.

Income Tax Recovery (Expense). Income tax (expense) recovery was an expense of \$24.5 million in 2016 compared to a recovery of \$16.8 million in 2015.

The income tax expense for 2016 was mainly due to an increase in Teekay Offshore's deferred tax valuation allowance and deferred tax expense due to a decrease in the expected utilization of Norwegian tax losses against anticipated earnings, an income tax accrual for the Voyageur Spirit FPSO unit during 2016 due to expected taxable income and the utilization of prior year losses carried forward and an estimated tax liability relating to our Singapore and towage entities, as well as freight taxes in Teekay Tankers and Teekay Parent.

The income tax recovery for 2015 was primarily due to the acquisition of the Petrojarl Knarr FPSO unit by Teekay Offshore and the commencement of the East Coast of Canada contract during 2015, and the expected commencement

of the Gina Krog FSO unit contract in early-2017. Teekay Offshore expected to utilize more of its Norwegian tax losses from the earnings anticipated from their contracts, as well as an expected increase in earnings from its existing fleet, which resulted in a decrease in Teekay Offshore's deferred tax asset valuation allowance.

Year Ended December 31, 2015 versus Year Ended December 31, 2014

Teekay LNG

Operating Results – Teekay LNG

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

(in thousands of U.S. dollars, except calendar-ship-days)	Liquefied Gas Carriers		Conventional Tankers		Teekay LNG Total	
	2015	2014	2015	2014	2015	2014
Revenues	305,056	307,426	92,935	95,502	397,991	402,928
Voyage expenses	203	(1,768)	(1,349)	(1,553)	(1,146)	(3,321)
Net revenues	305,259	305,658	91,586	93,949	396,845	399,607
Vessel operating expenses	(63,344)	(59,087)	(30,757)	(36,721)	(94,101)	(95,808)
Depreciation and amortization	(71,323)	(71,711)	(20,930)	(22,416)	(92,253)	(94,127)
General and administrative expenses ⁽¹⁾	(19,392)	(17,992)	(5,726)	(5,868)	(25,118)	(23,860)
Restructuring recovery (charges)	—	—	(4,001)	(1,989)	(4,001)	(1,989)
Income from vessel operations	151,200	156,868	30,172	26,955	181,372	183,823
Equity income	84,171	115,478	—	—	84,171	115,478
Calendar-Ship-Days ⁽²⁾						
Liquefied Gas Carriers	6,935	6,619	—	—	6,935	6,619
Conventional Tankers	—	—	2,920	3,202	2,920	3,202

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

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

Teekay LNG – Liquefied Gas Carriers

As at December 31, 2015, Teekay LNG's liquefied gas fleet, including newbuildings, included 50 LNG carriers and 29 LPG/Multigas carriers, in which its interests ranged from 20% to 100%. The number of calendar-ship-days for Teekay LNG's liquefied gas carriers consolidated in its financial results increased to 6,935 days in 2015 from 6,619 days in 2014, as a result of the acquisition and delivery of the Norgas Napa on November 13, 2014. During 2015, the Polar Spirit was off hire for 47 days for a scheduled dry docking, compared to the Galicia Spirit, Madrid Spirit and Polar Spirit being off hire for 28, 24 and 6 days, respectively, for scheduled dry dockings and an in-water survey in 2014.

Income from vessel operations decreased to \$151.2 million in 2015 compared to \$156.9 million in 2014, primarily as a result of:

- a decrease of \$9.3 million due to the effect on Teekay LNG's Euro-denominated revenues from the depreciation of the Euro against the U.S. Dollar compared to 2014, partially offset by lower crew wages due to favorable foreign exchange impacts during 2015 on crew wages denominated in foreign currencies relating to certain of its LNG carriers;

- a decrease of \$1.6 million from an increase in ship management fees for Teekay LNG carriers compared to 2014; and
- a decrease of \$1.4 million from higher general and administrative expenses primarily due to a greater amount of business development, commercial activities, and legal and tax services provided to Teekay LNG by Teekay to support its growth, and higher advisory fees incurred to support its business development and commercial activities; partially offset by

- a net increase of \$4.5 million due to less scheduled and unscheduled off-hire days in 2015 compared to the prior year; and

an increase of \$2.0 million as a result of the acquisition and delivery of the Norgas Napa in November 2014.

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Equity income related to Teekay LNG's liquefied gas carriers decreased to \$84.2 million in 2015 compared to \$115.5 million in 2014, as set forth in the table below:

(in thousands of U.S. Dollars)	Year Ended December 31,						Total Equity Income
	Angola LNG Carriers	Exmar LNG Carriers	Exmar LPG Carriers	MALT LNG Carriers	RasGas 3 LNG Carriers	Other	
2015	16,144	9,332	32,733	4,620	21,527	(185)	84,171
2014	3,472	10,651	44,114	36,805	20,806	(370)	115,478
Difference	12,672	(1,319)	(11,381)	(32,185)	721	185	(31,307)

The \$12.7 million increase for 2015 in Teekay LNG's 33% investment in the four Angola LNG Carriers was primarily due to unrealized gains on derivative instruments in 2015 as a result of long-term LIBOR benchmark interest rates increasing for interest rate swaps compared to unrealized losses on derivative instruments last year, and an increase in voyage revenues upon amending the charter contract in the second quarter of 2015 to allow for dry docking and operating costs to pass-through to the charterer, retroactive to the beginning of the charter contract.

The \$1.3 million decrease for 2015 in equity income from the two Exmar LNG Carriers, in which Teekay LNG has ownership interests ranging from 49% to 50%, was primarily due to higher interest expense as a result of the completion of the joint venture's debt refinancing in 2015.

The \$11.4 million decrease for 2015 in equity income from Teekay LNG's 50% ownership interest in Exmar LPG BVBA was primarily due to the gains on the sales of the Flanders Tenacity, Eeklo and Flanders Harmony, which were sold during the second and third quarters of 2014, a loss on sale of the Temse (formerly Kemira Gas) in 2015, redelivery of the in-chartered vessel Odin back to its owner in November 2015, and hedge ineffectiveness of interest rate swaps in 2015. These decreases were partially offset by higher contracted charter rates from five LPG carrier newbuildings which delivered from September 2014 to September 2015, net of four disposed of LPG carriers during 2014, and a loss on the sale of the Temse in the first quarter of 2014.

The \$32.2 million decrease for 2015 in Teekay LNG's 52% investment in the MALT LNG Carriers was primarily due to fewer revenue days compared to 2014 as a result of the disputed termination of the charter contract and unscheduled off-hire days relating to a grounding incident for the Magellan Spirit in the first quarter of 2015, the scheduled expiration of the charter contract for the Methane Spirit in March 2015 and the unscheduled off-hire days relating to the Woodside Donaldson to repair a damaged propulsion motor in January 2015.

Teekay LNG – Conventional Tankers

As at December 31, 2015, Teekay LNG's conventional tanker fleet included seven Suezmax-class double-hulled conventional crude oil tankers and one Handymax product tanker, six of which it owned and two of which it leased under capital leases. All of Teekay LNG's conventional tankers operate under fixed-rate charters. The number of calendar-ship-days for Teekay LNG's conventional tankers decreased to 2,920 days in 2015 from 3,202 days in 2014, as a result of the sales of the Algeciras Spirit and Huelva Spirit in February 2014 and August 2014, respectively. During 2015, the Toledo Spirit was off hire for 22 days for a scheduled dry docking, compared to the Bermuda Spirit, Hamilton Spirit and Teide Spirit being off hire for 27, 24 and 31 days, respectively, for scheduled dry dockings in 2014.

Income from vessel operations increased to \$30.2 million during 2015 compared to \$27.0 million in 2014, primarily as a result of:

- an increase of \$6.6 million due to higher revenues earned by the Teide Spirit and Toledo Spirit in 2015 relating to the agreement between Teekay LNG and CEPSPA which resulted in additional revenue when spot tanker rates exceeded

certain thresholds, and the Teide Spirit being off hire for 31 days for a scheduled dry docking in 2014, partially offset by the Toledo Spirit being off hire for 22 days for a scheduled dry docking in 2015;

partially offset by

a decrease of \$2.3 million due to higher revenues recognized last year by the Bermuda Spirit and Hamilton Spirit relating to an agreement between Teekay LNG and the charterer that ended in October 2014, which resulted in Teekay LNG recognizing additional revenues in 2014 when Suezmax tanker spot rates exceeded a certain amount, partially offset by the Bermuda Spirit being off hire for 27 days in the first quarter of 2014 and the Hamilton Spirit being off hire for 24 days in the second quarter of 2014 for scheduled dry dockings; and

a decrease of \$1.1 million due to CEPESA's sales of Teekay LNG's vessels under capital lease, the Algeciras Spirit and Huelva Spirit, in February 2014 and August 2014, respectively, including the seafarer severance payments in August 2014.

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Teekay Tankers

Operating Results – Teekay Tankers

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

(in thousands of U.S. dollars, except calendar-ship-days)	Year Ended	
	December 31,	
	2015	2014
Revenues	504,347	235,593
Voyage expenses	(19,566)	(9,984)
Net revenues	484,781	225,609
Vessel operating expenses	(130,775)	(93,022)
Time-charter hire expense	(77,799)	(22,160)
Depreciation and amortization	(71,429)	(50,152)
General and administrative expenses	(16,694)	(11,959)
Net gain on sale of vessels and equipment	771	9,955
Restructuring charge	(4,772)	
Income from vessel operations	184,083	58,271
Equity income	14,411	5,228
Calendar-Ship-Days ⁽¹⁾		
Conventional Tankers	16,636	11,418

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

Teekay Tankers – Conventional Tankers

As at December 31, 2015, Teekay Tankers owned 45 double-hulled conventional oil tankers, seven ship-to-ship lightering support vessels, time-chartered in ten Aframax tankers and three LR2 product tankers from third parties and owned a 50% interest in one VLCC.

Income from vessel operations increased to \$184.1 million in 2015 compared to \$58.3 million in 2014, primarily as a result of:

- an increase of \$83.0 million of revenue resulting from higher average realized TCE rates earned by Teekay Tankers' Suezmax, Aframax, LR2 and MR tankers in 2015 compared to 2014;
- a net increase of \$68.1 million resulting from the addition of 11 Suezmax tankers, three Aframax tanker and four LR2 product tankers acquired in 2015, the addition of two in-chartered Aframax tankers and one LR2 product tanker in 2015 and the addition of seven in-chartered Aframax tankers and four in-chartered LR2 product tankers in 2014 and from the recognition of in-process revenue contracts in 2015, partially offset by the addition of two VLCCs in March 2014 that were subsequently sold to TIL in May 2014 and the sale of a MR product tanker in 2015;
- a net increase of \$13.4 million for 2015 resulting from certain vessels changing employment between fixed-rate charters and voyage charters; and
- an increase of \$2.4 million from lower crewing costs during 2015 resulting from a change in the nationality of crew on a MR product tanker, favorable current year foreign currency exchange rates impacting crew wage expenditures, the timing and extent of planned vessel maintenance and repairs, and repairs on a Suezmax tanker which were incurred during 2014;

partially offset by

- a decrease of \$10.0 million resulting from the gain on sale of vessels recorded in 2014 related to the sale of two wholly-owned subsidiaries, each of which owned one VLCC, to TIL;

- a decrease of \$9.1 million resulting from the interest income recognized on Teekay Tankers' investments in term loans in 2014;
- a net decrease of \$6.6 million resulting from higher management fees, commissions, off-hire bunker expense and other expenses in 2015 compared to 2014;
- a decrease of \$6.5 million resulting from higher time-charter rates due to profit sharing components and options Teekay Tankers exercised to extend the in-chartered contracts in 2015;
- a net decrease of \$4.9 million resulting from more off-hire days in 2015 compared to 2014, primarily as a result of higher dry-docking activity;

a decrease of \$2.8 million resulting from higher corporate expenses incurred during 2015 primarily as a result of legal expenses related to vessel acquisitions and to the STX arbitration (Please read “Note 15d - Commitments and Contingencies - Legal Proceedings and Claims - STX Offshore & Shipbuilding Co.”); and
 a decrease of \$2.1 million resulting from higher amortization of dry-docking expenditures in 2015 compared to 2014. Equity income increased to \$14.4 million in 2015 from \$5.2 million for 2014 primarily due to:

an increase of \$5.4 million due to higher equity earnings from TIL resulting from overall higher realized average spot rates earned in 2015 compared to 2014, the acquisition of six Suezmax vessels delivered during 2015 and one Aframax vessel delivered during 2014, partially offset by a decrease relating to a dilution gain recorded in 2014 resulting from Teekay Tankers’ reduced ownership interest in TIL from TIL’s share issuance completed as part of its initial public offering (or IPO) in 2014;

an increase of \$3.3 million due to a full year of earnings from Teekay Tankers’ 50% interest in TTOL, which it acquired in 2014; and

an increase of \$0.5 million due to higher equity earnings from the High-Q joint venture resulting from higher unrealized gain on derivatives recognized in 2015 compared to 2014.

Teekay Parent

Operating Results – Teekay Parent

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

	Offshore Production		Conventional Tankers		Other and Corporate G&A		Teekay Parent Total	
	2015	2014	2015	2014	2015	2014	2015	2014
(in thousands of U.S. dollars, except calendar-ship-days)								
Revenues	277,842	259,945	65,777	94,376	75,547	95,791	419,166	450,112
Voyage expenses	(36)	(15)	(763)	(8,855)	(808)	263		