ZIONS BANCORPORATION /UT/
Form 11-K
June 28, 2002

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

FORM 11-K

[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ____ to ____

Commission File Number 0-2610

A. Full title of the plan and address of the plan, if different from that of the issuer named below:

ZIONS BANCORPORATION
EMPLOYEE STOCK SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

ZIONS BANCORPORATION
One South Main, Suite 1134
Salt Lake City, Utah 84111

FINANCIAL STATEMENTS AND EXHIBIT

Report of Independent Auditors

The Benefits Committee
Zions Bancorporation Employee Stock Savings Plan

We have audited the accompanying statements of net assets available for benefits of Zions Bancorporation Employee Stock Savings Plan as of December 31, 2001 and 2000, and the related statement of changes in net assets available for benefits for the year ended December 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2001 and 2000, and the changes in its net assets available for benefits for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of reportable transactions for the year ended December 31, 2001, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/Ernst & Young

June 17, 2002

Zions Bancorporation Employee Stock Savings Plan

Statements of Net Assets Available for Benefits

	December 31, 2001	December 31, 2000
Assets		
Investments, at fair value:		
Zions Bancorporation common stock ..	$ --	$97,922,854
Money market account	--	361
	--	97,923,215

Receivables:		
Participant contributions	--	165,223
Employer contributions	--	82,612
Interest	--	599
	--	248,434
Net assets available for benefits	$ --	$98,171,649

See accompanying notes.

2

Zions Bancorporation Employee Stock Savings Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2001

Additions	
Investment income (loss):	
Net depreciation in fair value of Zions Bancorporation common stock	$(15,656,820)
Dividends	1,326,062
Interest	4,875
	(14,325,883)
Contributions:	
Participant	9,794,418
Employer	4,897,207
	14,691,625
Total additions	365,742
Deductions	
Benefits paid directly to participants	5,502,963
Transfer of assets to Zions Bancorporation Employee Investment Savings Plan	93,034,428
Total deductions	98,537,391
Net decrease	(98,171,649)
Net assets available for benefits:	
Beginning of year	98,171,649
End of year	$ --

See accompanying notes.

Zions Bancorporation Employee Stock Savings Plan

Notes to Financial Statements

December 31, 2001

1. Description of the Plan

The following description of the Zions Bancorporation Employee Stock Savings Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a single employer defined contribution plan that is designed to provide retirement benefits for eligible employees under either a pre-tax or post-tax salary reduction arrangement by offering employees an opportunity to acquire stock ownership in Zions Bancorporation (the Company). The Plan is subject to the provisions of the Employee Retirement Income Security Act (ERISA) of 1974. The trust department of Zions First National Bank, a subsidiary of Zions Bancorporation, is the trustee of the Plan. The Zions Bancorporation Benefits Committee has responsibility for administering the Plan.

Eligibility

Participation in the Plan is voluntary. An employee is eligible to participate on January 1, April 1, July 1, or October 1, whichever coincides with, or immediately follows, the latter of the date on which the employee completes at least 1,000 hours of service during 12 continuous months and attains the age of 21. In addition, the definition of one year of eligibility service includes employees for whom one year has past since (a) the commencement date with a previous employer that sponsored a similar 401(k) plan in which the employee participated or (b) the commencement date with a merged employer.

Contributions

Each year, participants may make voluntary contributions up to 5 percent of their pre-tax or post-tax annual compensation, as defined in the Plan document. Company contributions are equal to 50 percent of the amount contributed by the participant up to five percent of their total compensation. The maximum pre-tax amount a participant may contribute to the Plan in a calendar year, in conjunction with the Zions Bancorporation Employee Investment Savings Plan, is $10,500 for 2001.

1. Description of the Plan (continued)

Participant Accounts

Each participant's account is credited with the participant's contributions and allocations of (a) the Company's contributions and (b) plan earnings. Investment income or loss is allocated to each participant's account in proportion to the investment shares held in that participant's account to the total investment shares held in the Plan.

Vesting and Payment of Benefits

Participants are fully vested in their participant accounts, inclusive of Company contributions, at all times. Benefits are paid upon death, disability, retirement, termination of employment, or earlier, subject to certain restrictions, as defined in the Plan document. Benefit payments are made in shares of stock.

Plan Termination

Although the Company has not expressed any intent to do so, it has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. If the Plan is terminated, each participant shall receive a distribution of assets equal to the value of the participant's account.

2. Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting.

Valuation of Investments and Income Recognition

The Plan's investments are stated at fair value. The investment in common stock of the Company is valued at its quoted market price on the last business day of the Plan year. Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

Administrative Expenses

Administrative expenses are currently being paid by the Company; however, the Plan may bear the costs of administration.

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of Investments

Included in the Plan's net assets available for benefits at December 31, 2000 are investments in common stock of the Company amounting to $97,922,854. These investments represent 1.80 percent ownership of the Company's outstanding common stock at December 31, 2000. The investment in common stock of the Company consisted of 1,568,334 shares at December 31, 2000.

3. Plan Amendment and Merger

Effective December 31, 2001, the Plan was amended and was merged into the Zions Bancorporation Employee Investment Savings Plan, and the assets of the Plan totaling $93,034,428 were legally transferred on that date. Accordingly, the Plan has no net assets available for benefits as of December 31, 2001.

4. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service dated June 5, 1996, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Subsequent to this issuance of the determination letter, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt. A new determination letter has been requested for the new combined plan.

Zions Bancorporation Employee Stock Savings Plan

Notes to Financial Statements (continued)

5. Differences Between Financial Statements and Form 5500

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500:

	Year Ended December 31, 2001
Benefits paid directly to participants per the financial statements	$ 5,502,963
Less: Amounts allocated on Form 5500 to withdrawn participants at December 31, 2000	(225,299)
Benefits paid directly to participants per the Form 5500 .	$ 5,277,664

Amounts allocated to withdrawn participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to year-end but not yet paid. Amounts allocated to withdrawn participants at December 31, 2001 are included in the reconciliation of benefits paid to participants per the financial statements to the Form 5500 of the Zions Bancorporation Employee Investment Savings Plan, in connection with the merger of the Plans (see Note 3).

6. Transactions with Parties-in-Interest

The Company provides to the Plan certain accounting and administrative services for which no fees are charged. In addition, as indicated in Note 1, the trust department of Zions First National Bank is the trustee of the Plan, while the Zions Bancorporation Benefits Committee has responsibility for administering the Plan.

7

Zions Bancorporation Employee Stock Savings Plan

Schedule H, Line 4j - Schedule of Reportable Transactions
EIN: 87-0227400 Plan: 004

Year Ended December 31, 2001

(a) Identity of Party Involved	(b) Description of Investment	(c) Purchase Price	(d) Selling Price	(g) Cost of Asset	(h) Current Value of Asset on Transaction Dat
Category (iii) - series of transactions in excess of 5% of Plan assets					
Zions Bancorporation	Common stock	$ --	$ 5,562,401	$ 2,874,762	$ 5,562,40
Zions Bancorporation	Common stock	15,544,506	--	15,544,506	15,544,50

There were no category (i), (ii), or (iv) reportable transactions during the year ended December 31, 2001. Columns (e) and (f) are not applicable.

8

SIGNATURE

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

June 27, 2002

ZIONS BANCORPORATION
EMPLOYEE STOCK SAVINGS PLAN

By: /s/ Harris H. Simmons

Name: HARRIS H. SIMMONS, Chairman, President and Chief Executive Officer of Zions Bancorporation

9

style="line-height:120%;text-align:justify;padding-left:24px;font-size:8.5pt;">

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:

-

Our revenues are affected by cyclicality 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.

	Revenues			Income from Vessel Operations		
(in thousands of U.S. dollars)	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	
(in thousands of U.S. dollars, except calendar-ship-days)	2016	2015	2016	2015	2016	2015
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.

10

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	Other	Total 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.

12

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.

	Year Ended December 31,	
(in thousands of U.S. dollars, except calendar-ship-days)	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.

	Offshore Production		Conventional Tankers		Other and Corporate G&A		Teekay Parent Total	
(in thousands of U.S. dollars, except calendar-ship-days)	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
FSO 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.

20

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,

(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)

21

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.

	Liquefied Gas Carriers		Conventional Tankers		Teekay LNG Total	
(in thousands of U.S. dollars, except calendar-ship-days)	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.

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,						
	Angola LNG Carriers	Exmar LNG Carriers	Exmar LPG Carriers	MALT LNG Carriers	RasGas 3 LNG Carriers	Other	Total Equity Income
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 CEPSA 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 CEPSA'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.

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.

	Year Ended December 31,	
(in thousands of U.S. dollars, except calendar-ship-days)	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	
(in thousands of U.S. dollars, except calendar-ship-days)	2015	2014	2015	2014	2015	2014	2015	2014
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	(1,607)	(8,607)
Net revenues	277,806	259,930	65,014	85,521	74,739	96,054	417,559	441,505
Vessel operating expenses	(200,338)	(212,159)	(16,051)	(29,633)	(24,294)	(26,488)	(240,683)	(268,280)
Time-charter hire expense	(29,978)	(29,623)	(38,991)	(54,720)	(44,448)	(42,426)	(113,417)	(126,769)
Depreciation and amortization	(69,508)	(78,630)	(2,852)	(2,216)	451	774	(71,909)	(80,072)
General and administrative expenses (1)	(17,261)	(21,778)	(2,136)	(3,992)	1,221	(9,321)	(18,176)	(35,091)
Loan loss provision reversal	—	2,521	—	—	—	—	—	2,521
Net (loss) gain on sale of vessels and equipment	(948)	935	—	(502)	—	—	(948)	433
Restructuring charges	—	—	—	(6,865)	(2,654)	(1,105)	(2,654)	(7,970)
(Loss) income from vessel operations	(40,227)	(78,804)	4,984	(12,407)	5,015	17,488	(30,228)	(73,723)
Equity (loss) income	(12,196)	(1,357)	16,712	3,052	(1,101)	(2,546)	3,415	(851)
Calendar-Ship-Days (2)								
FPSO Units	1,095	1,444	—	—	—	—	1,095	1,444
Conventional Tankers	—	—	2,516	3,667	—	—	2,516	3,667
Gas Carriers	—	—	—	—	730	730	730	730
FSO Units	365	365	—	—	730	503	1,095	868
Shuttle Tankers	730	730	—	—	—	—	730	730
Bunker Barges	—	—	—	—	200	—	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, 2015, we had a direct interest in three 100% owned FPSO units.

The charter contract for the Petrojarl I FPSO unit ended in April 2013 and was off hire until we sold the unit to Teekay Offshore in December 2014. The Hummingbird Spirit FPSO unit's current charter contract was to expire on March 31, 2017 unless terminated by the charterer upon 90 days' notice. The Hummingbird Spirit FPSO charter contract includes an incentive compensation component based on the oil price. In addition, the Foinaven FPSO unit's charter contract includes incentives based on total oil production for the year, certain operational measures, and the average annual oil price. The declines in the price of oil has negatively impacted our incentive compensation under these contracts and may negatively impact our revenues in future periods if the oil price remains at or falls below current levels. The Banff FPSO unit completed its repairs and upgrades following storm damage in December 2011 and resumed production on the Banff field in July 2014.

In mid-March 2015, the Petrojarl Knarr FPSO unit achieved first oil and commenced its charter contract with BG Norge, and during June 2015 the unit completed operational testing and commenced at the contract's full charter rate. On July 1, 2015 we completed the sale of the Petrojarl Knarr FPSO unit to Teekay Offshore. The Teekay Parent results for the year ended December 31, 2015 have been retrospectively adjusted to exclude the results of the Petrojarl Knarr FPSO from March 2015 when the unit commenced operations, and the results for Teekay Offshore have been retrospectively adjusted to include the results of the Petrojarl Knarr from March 2015.

The number of Teekay Parent's FPSO calendar-ship days for the year ended December 31, 2015 decreased compared to the same period last year due to the sale of the Petrojarl I FPSO unit to Teekay Offshore in December 2014.

Loss from vessel operations improved to $40.2 million during 2015 compared to $78.8 million in 2014, primarily as a result of:

- an increase of $31.4 million related to the Petrojarl Banff FPSO unit, excluding general and administrative expenses, due to the unit's recommencement of operations under its time-charter contract in July 2014, partially offset by in-process contract revenue being fully amortized in 2014;
- an increase of $21.3 million, excluding general and administrative expenses, related to lower vessel operating costs and depreciation as a result of the sale of Petrojarl I FPSO to Teekay Offshore in December 2014 subsequent to its contract expiration and lay-up in April 2013; and
- an increase of $10.0 million, excluding general and administrative expenses, from the Knarr FPSO unit incurring pre-operating costs in 2014 prior to its mobilization to the North Sea;

partially offset by

- a decrease of $20.2 million related to Hummingbird Spirit FPSO unit, excluding general and administrative expenses, primarily due to lower incentive revenue earned in 2015 as a result of lower oil prices, loss on disposal of mooring chains in 2015 and loan loss recovery in 2014 related to a front-end engineering and design (or FEED) study;
- a decrease of $3.5 million as a result of higher general and administrative expenses primarily due to legal costs associated with the Petrojarl Banff FPSO unit and increase in external consulting fees related to the FPSO fleet; and
- a decrease of $1.5 million primarily related to Petrojarl Foinaven, excluding general and administrative expenses, due to a settlement amount received in the first quarter of 2014 and lower oil price-linked revenue in 2015, partially offset by higher production in 2015 compared to the prior year due to compressor and sub-sea issues incurred in 2014.

Teekay Parent – Conventional Tankers

As at December 31, 2015, Teekay Parent had a direct interest in one conventional tanker, two chartered-in conventional tankers from third parties, one chartered-in conventional tanker from Teekay Offshore and one chartered-in conventional tanker from Teekay Tankers. The average fleet size (including vessels chartered-in), as measured by calendar-ship-days, decreased in 2015 compared with 2014 due to the termination of the time-charter-in contract of one Aframax tanker, the redeliveries to their owners of two chartered-in Suezmax tankers, one chartered-in Aframax tanker and one chartered-in MR product tanker during 2014, and the sale of four Suezmax tankers during 2014, partially offset by a new time-charter arrangement for two Aframax tankers during 2014 and the addition of one VLCC during 2014. The collective impact from the noted fleet changes are referred to below as the Net Fleet Reductions.

Income from vessel operations increased to $5.0 million during 2015 compared to a loss from vessel operations of $12.4 million in 2014, primarily as a result of:

- a net increase of $9.7 million due to higher average spot tanker TCE rates earned in 2015;
- a net increase of $5.3 million due to lower vessel operating expenses from the sale of the four Suezmax tankers during 2014 and lower time-charter hire expense from redeliveries of various tankers to their owners during 2014, partially offset by the loss of revenue due to the sale and redeliveries of tankers; and

- a net increase of $1.8 million due to net cancellation fees paid by Teekay Offshore to Teekay Parent related to the termination of time-charter contracts in 2015.

Teekay Parent – Other and Corporate G&A

As at December 31, 2015, Teekay Parent had two chartered-in LNG carriers owned by Teekay LNG, two chartered-in FSO units owned by Teekay Offshore and two chartered-in bunker barges. The charterer of the Polar Spirit LNG carrier, which Teekay Parent has chartered-in from Teekay LNG under a time-charter contract, has not paid hire for the vessel in December 2015 or January 2016. Teekay Parent has commenced arbitration proceedings and is assessing other options. The Arctic Spirit and Polar Spirit commenced lay-up in the second quarter of 2016.

Income from vessel operations decreased to $5.0 million during 2015 compared to $17.5 million in 2014, primarily as a result of:

- a decrease of $15.7 million due to the Arctic Spirit and Polar Spirit LNG carriers earning lower charter rates commencing in 2015 from new contracts with existing charterers and a provision for doubtful accounts in relation to the Polar Spirit LNG carrier;

- a decrease of $6.1 million due to the interest income recognized in 2014 related to Teekay Parent's investment in a term loan which was entered into during 2011; and

- a decrease of $1.5 million due to restructuring charges in 2015 for the reorganization of Teekay's marine operations and corporate services;

partially offset by

- an increase of $10.5 million due to lower general and administrative expenses in 2015, primarily as a result of business development fees received from Teekay Offshore 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.

Equity income (loss) increased to $3.4 million in 2015 compared to ($0.9) million in 2014, primarily due to higher equity earnings from Petrotrans Holdings resulting from a gain on the sale of TMS from the joint venture to Teekay Tankers and higher equity earnings from TIL resulting from overall higher realized average spot rates in 2015 and its acquisition of six Suezmax vessels delivered during 2015, partially offset by a deferred tax asset write-down and unrealized foreign exchange losses relating to Teekay Parent's 43% investment in Sevan for the year ended December 31, 2015.

Teekay Offshore

Operating Results – Teekay Offshore

The following table compares Teekay Offshore'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)	Teekay Offshore Total	
	2015	2014
Revenues	1,229,413	1,019,539
Voyage expenses	(98,006)	(112,540)
Net revenues	1,131,407	906,999
Vessel operating expenses	(378,480)	(352,209)
Time-charter hire expense	(51,750)	(31,090)
Depreciation and amortization	(274,599)	(198,553)
General and administrative expenses	(72,613)	(67,516)
Asset impairments and gain on sale of vessels	(69,998)	(1,638)
Restructuring (charges) recovery	(568)	225
Income from vessel operations	283,399	256,218
Equity income	7,672	10,341
Calendar-Ship-Days (1)		
Shuttle Tankers	12,319	12,672
FSO Units	2,395	2,190
FPSO Units	2,122	1,476
Conventional Tankers	1,432	1,460
UMS	318	—
Towage	1,606	—

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

As of December 31, 2015, Teekay Offshore's FPSO fleet consisted of the Petrojarl Varg, the Cidade de Rio das Ostras (or Rio das Ostras), the Piranema Spirit, the Voyageur Spirit, the Petrojarl I, and the Petrojarl Knarr FPSO units, all of which Teekay Offshore owns 100%, and the Itajai FPSO unit and the Libra FPSO unit, of which Teekay Offshore owns 50%. In October 2014, Teekay Offshore sold a 1995-built shuttle tanker, the Navion Norvegia, to a 50/50 joint venture with OOG and the vessel is undergoing conversion into an FPSO unit for the Libra field located in the Santos Basin offshore Brazil and is scheduled to commence operations in mid-2017. Teekay Offshore acquired the Petrojarl I FPSO unit from us in December 2014. The unit is currently undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard in the Netherlands. Teekay Offshore acquired the Petrojarl Knarr FPSO unit from us in July 2015. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Brazilian Real, and British Pound may result in significant decreases or increases, respectively, in Teekay Offshore's revenues and vessel operating expenses.

Teekay Offshore uses the FPSO units to provide production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate FPSO contracts, some of which also include certain incentive compensation or penalties based on the level of oil production and other operational measures. Historically, the utilization of FPSO units and other vessels in the North Sea, where the 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 average number of Teekay Offshore's FPSO units increased in 2015 compared to 2014, due to the acquisitions of the Petrojarl Knarr on July 1, 2015 and the Petrojarl I on December 15, 2014.

As at December 31, 2015, the shuttle tanker fleet consisted of 31 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters, three shuttle tanker newbuildings, and one shuttle tanker and one HiLoad DP unit in lay-up. Of these 36 shuttle tankers, six were owned through 50% owned subsidiaries, one through a 67%-owned subsidiary and three were chartered-in. The remaining vessels are owned 100% by Teekay Offshore. 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 our consolidated balance sheet as of December 31, 2015. All of Teekay Offshore's operating shuttle tankers, with the exception of the HiLoad DP unit, provide transportation services to energy companies, primarily in the North Sea, Brazil and the East Coast of Canada. These shuttle tankers occasionally service the conventional spot tanker market. Teekay Offshore sold the Navion

Norvegia to its 50/50 joint venture with OOG in the fourth quarter of 2014 and the vessel is currently undergoing conversion into an FPSO unit for operation in the Libra oil field in Brazil. During the first quarter of 2015, Teekay Offshore sold the Navion Svenita. 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 our vessel operating expenses.

The average size of Teekay Offshore’s owned shuttle tanker fleet decreased in 2015 compared to 2014, primarily due to the sales of the Navion Norvegia and the Navion Svenita in October 2014 and March 2015, respectively, and the commencement of the FSO conversion of the Randgrid in June 2015, partially offset by the delivery of the HiLoad DP unit in April 2014. The average size of Teekay Offshore’s chartered-in shuttle tanker fleet increased in 2015 compared to 2014 primarily due to the in-chartering of three shuttle tankers, the Karen Knutsen, the Heather Knutsen, and the Mattea for the East Coast of Canada contract, which commenced in June 2015, partially offset by redeliveries to their owners of the Grena Knutsen in June 2015 and the Karen Knutsen in January 2014, decreased spot in-chartering of shuttle tankers, and the replacement of the Mattea by one of Teekay Offshore’s owned shuttle tankers in September 2015.

As of December 31, 2015, Teekay Offshore’s FSO fleet consisted of six 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. Teekay Offshore commenced the FSO conversion of the Randgrid shuttle tanker during the second quarter of 2015. FSO units provide an on-site storage solution to oil field installations that have no oil storage facilities or that require supplemental storage. Teekay Offshore’s revenues and vessel operating expenses for the FSO segment are affected by fluctuations in currency exchange rates, as a significant component of revenues are earned and vessel operating expenses are incurred in Norwegian Kroner and Australian Dollars for certain vessels. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner or Australian Dollar may result in significant decreases or increases, respectively, in our revenues and vessel operating expenses. The average number of Teekay Offshore’s FSO units increased in 2015 compared to 2014, due to the commencement of the FSO conversion of the Randgrid on June 9, 2015. No earnings were 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 (or Statoil), which includes 12 additional one-year extension options.

As at December 31, 2015, Teekay Offshore’s towage vessel fleet consisted of six long-distance towing and offshore installation vessels and four ultra-long distance towing and offshore installation vessel newbuildings, which were scheduled to deliver during 2016. 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, FLNG units and floating drill rigs. The average number of Teekay Offshore’s towing and offshore installation vessels increased in 2015 compared to 2014, due to the delivery of six towing and offshore installation vessels during 2015.

As at December 31, 2015, Teekay Offshore’s UMS fleet consisted of one operational unit, the Arendal Spirit, and two newbuildings. During the second quarter of 2015, Teekay Offshore exercised its options to defer the delivery of the second UMS newbuilding by up to one year, and the delivery and all related construction work of the third UMS by 120 days. In June 2016 Teekay Offshore canceled the UMS construction contracts for its two UMS newbuildings. Teekay Offshore owned a 100% interest in all three units. The UMS fleet is used primarily for offshore accommodation, storage and support for maintenance and modification projects on existing offshore installations, or during the installation and decommissioning of large floating exploration, production and storage units, including FPSO units, FLNG units and floating drill rigs. Teekay Offshore’s UMS fleet is available for world-wide operations, excluding operations within the Norwegian Continental Shelf, and includes DP3 keeping systems that are capable of operating in deep water and harsh weather. The Arendal Spirit UMS delivered to Teekay Offshore in February, 2015 and began its three-year charter contract in June, 2015.

As at December 31, 2015, Teekay Offshore owned 100% interests in two Aframax conventional crude oil tankers, the Kilimanjaro Spirit, which operated under a fixed-rate time charter with Teekay Parent, and the Fuji Spirit, which operated in the spot conventional tanker market. Both of these vessels were classified as held for sale as at December 31, 2015. As part of the sales of Fuji Spirit and Kilimanjaro Spirit in March 2016, Teekay Offshore is in-chartering these vessels for three years each, both with an additional one-year extension option. One vessel is fixed on a two-year time-charter-out contract and the other vessel is trading in the spot conventional tanker market. In December 2015, Teekay Offshore terminated the time-charter contract of the Fuji Spirit with a subsidiary of Teekay Parent and received an early termination fee of $4.7 million from Teekay Parent. In December 2015, Teekay Offshore terminated the long-term bareboat contracts for the SPT Explorer and the Navigator Spirit conventional tankers with Teekay Parent and paid early termination fees of $6.5 million to Teekay Parent. Immediately following the contract terminations, 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 increased to $283.4 million in 2015 compared to $256.2 million in 2014, primarily as a result of:

FPSO Fleet

- an increase of $67.0 million, excluding general and administrative expenses, due to the acquisition of the Petrojarl Knarr FPSO unit;
- an increase of $17.2 million, excluding general and administrative expenses, for the Voyageur Spirit FPSO unit during 2015, primarily due to the charterer’s final acceptance of the charter contract in February 2014, a production bonus earned in 2015, a production penalty in 2014 and external consulting fees incurred during the first quarter of 2014 to achieve final acceptance for the unit;
- an increase of $3.7 million, excluding general and administrative expenses, for the Rio das Ostras FPSO unit, primarily due to a decrease in operating expenses for the unit due to the strengthening of the U.S. Dollar against the Brazilian Real and Norwegian Kroner and lower repairs and maintenance expenses;

- an increase of $2.2 million due to lower ship management costs in 2015 related to operating the FPSO units; and
- an increase of $2.1 million, excluding general and administrative expenses, due to an increase in crew hours reimbursed by the charterer of the Petrojarl Varg for 2015, and due to the timing of costs related to repair and maintenance, partially offset by decreases in incentive-related compensation during 2015;

partially offset by

- a decrease of $11.2 million due to increases in general and administrative expenses primarily related to the acquisition of the Petrojarl Knarr, partially offset by additional focus required for obtaining final charter contract acceptance for the Voyageur Spirit in the first quarter of 2014;
- a decrease of $6.4 million, excluding general and administrative expenses, relating to the Piranema Spirit FPSO unit mainly due to unscheduled off-hire for repairs during the third and fourth quarter of 2015 and higher repairs and maintenance costs, partially offset by a reversal of an agency fee accrual during 2015 which Teekay Offshore no longer considers payable and the commencement of operations of a produced water treatment plan on the Piranema Spirit in the second quarter of 2014; and
- a decrease of $6.2 million from increased depreciation expense for the Petrojarl I FPSO unit, which Teekay Offshore acquired from us in December 2014.

Shuttle Tanker Fleet

- a decrease of $61.9 million due to vessel write-downs of $66.7 million on seven 1990s-built shuttle tankers, whose carrying values were written down to their estimated fair values using appraised values for the year ended December 31, 2015. During the first quarter of 2015, two of the vessels were written down as a result of the expected sale of a vessel and a change in the operating plan of a vessel. In the fourth quarter of 2015, five shuttle tankers, which have an average age of 17.5 years, were written down as a result of changes in Teekay Offshore's expectations regarding their future opportunities, primarily due to their advanced age. While we expect four of the five vessels that were written down due to their advanced age to continue to actively trade as shuttle tankers over the near-term and the fifth vessel to actively trade in the conventional tanker market, Teekay Offshore anticipates the vessels will have fewer opportunities for alternative usage and encounter increased age discrimination over time. The decrease due to vessel write-downs was partially offset by a vessel write-down of $4.8 million in 2014 on the carrying value of one of Teekay Offshore's 1990s-built shuttle tanker which was written down to its estimated fair value using an appraised value, as a result of the vessel charter contract expiring in early-2015 and the expected sale of the vessel;
- a decrease of $31.3 million relating to the expiration of a long-term contract at the Heidrun field serviced by Teekay Offshore's contracts of affreightment fleet;
- a decrease of $18.4 million due to the redeliveries of two vessels to Teekay Offshore in February 2014 and April 2015 as they completed their time-charter-out agreements;
- a decrease of $6.9 million due to the sale of a 1997-built shuttle tanker, the Navion Svenita in March 2015, partially offset by the gain on the sale of the vessel to a third party; and
- a decrease of $3.0 million due to an increase in depreciation expense resulting from the dry docking of eight shuttle tankers from mid-2014 to late-2015;

partially offset by

- an increase of $14.3 million from lower vessel operating expense in Teekay Offshore's shuttle fleet due to the strengthening of the U.S. Dollar against the Norwegian Kroner, Euro and Brazilian Real;
- an increase of $8.6 million due to lower time-charter hire expense due to the redelivery by Teekay Offshore to its owners of the in-chartered Karen Knutsen in January 2014 and the Grena Knutsen in June 2015, decreased spot in-chartering of shuttle tankers, lower time-charter hire rates on the Aberdeen and an increase in off-hire during the third quarter of 2015, partially offset by the dry docking and off-hire of the Sallie Knutsen during the first and second quarters of 2014, and the dry docking of the Aberdeen during the second quarter of 2014;
- an increase of $8.0 million in revenues from Teekay Offshore's contract of affreightment fleet due to higher average rates, an increase in rates as provided in certain contracts in Teekay Offshore's time-chartered-out fleet, and an increase in revenues from the commencement of new contracts in mid-2015;
-

an increase of $6.5 million due to an increase in revenues from the commencement of the East Coast of Canada contract which commenced in June 2015, partially offset by additional in-chartering costs;

- an increase of $3.7 million due to higher average rates earned during 2015 when trading excess shuttle tanker capacity in the conventional tanker spot market, offset by fewer conventional spot days;
- an increase of $2.9 million due to fewer repair off-hire days in Teekay Offshore's time-chartered-out fleet for 2015 compared to 2014;
- an increase of $2.2 million relating to the HiLoad DP unit mainly due to mobilization expenses in 2014 partially offset by the commencement of depreciation expense of the HiLoad DP unit from January 2015;
- an increase of $2.1 million from lower depreciation expense due to the Navion Europa being fully amortized during the second quarter of 2015; and

- an increase of $2.1 million due to a decrease in repairs and maintenance expenses for 2015 compared to 2014 and a decrease in crew costs for 2015 compared to 2014 due to a change in crew composition, partially offset by an increase in crew training expenses for 2015 compared to 2014.

FSO Fleet

- an increase of $8.7 million from lower vessel operating expenses and depreciation expense, due to the commencement of an FSO conversion of the Randgrid in June 2015;
- an increase of $3.9 million primarily due to the dry docking of the Dampier Spirit during the second quarter of 2014 and the Navion Saga during the third quarter of 2014, partially offset by lower crew costs in 2014 due to a pension adjustment recorded in the first quarter of 2014 and increased depreciation of dry-dock and upgrade costs; and
- an increase of $2.1 million due to the commencement of operations of the Suksan Salamander FSO in the third quarter of 2014.

UMS Fleet

- an increase of $6.2 million due to the commencement of the charter contract of the Arendal Spirit UMS in June 2015 partially offset by write-downs relating to the expiration during 2015 of two options to purchase two additional units.

Towage Fleet

- an increase of $4.4 million due to the delivery of six towing and offshore installation vessels during 2015.

Conventional Tanker Fleet

- a decrease of $3.4 million primarily as a result of the write-downs of the Kilimanjaro Spirit and Fuji Spirit to their estimated fair values using appraised values, the net termination fees paid to Teekay Parent in relation to the early terminations of the bareboat and time-charter contracts and the sales of the SPT Explorer and Navigator Spirit, partially offset by a higher amount of reimbursed bunkers in 2015 compared to 2014 and the dry docking of the Kilimanjaro Spirit during the third quarter of 2014.

Equity income decreased to $7.7 million for 2015 compared to $10.3 million for 2014 primarily due to increases in unrealized losses on derivative instruments relating to Teekay Offshore’s investment in the Libra FPSO unit, partially offset by a decrease in unrealized losses on derivative instruments relating to an investment in the Itajai FPSO unit and a decrease in vessel operating expenses in the Itajai FPSO joint venture mainly due to the strengthening of the U.S. Dollar against the Brazilian Real compared to the preceding year, and a credit received during 2015 relating to unused maintenance days in the Itajai FPSO joint venture.

Other Consolidated Operating Results

The following table compares our other consolidated operating results for 2015 and 2014:

	Year Ended December 31,		
(in thousands of U.S. dollars, except percentages)	2015	2014	% Change
Interest expense	(242,469)	(208,529)	16.3
Interest income	5,988	6,827	(12.3)
Realized and unrealized loss on non-designated derivative instruments	(102,200)	(231,675)	(55.9)
Foreign exchange (loss) gain	(2,195)	13,431	(116.3)
Other income (loss)	1,566	(1,152)	(235.9)
Income tax recovery (expense)	16,767	(10,173)	(264.8)

Interest expense. Interest expense increased to $242.5 million in 2015, compared to $208.5 million in 2015, primarily due to:

- an increase of $37.6 million as a result of the Petrojarl Knarr FPSO unit commencing operations in March 2015;
-

- an increase of $17.0 million due to Teekay Offshore’s borrowings relating to the Suksan Salamander FSO unit (which commenced operations during the third quarter of 2014), the six towing vessels (which delivered throughout 2015), the Arendal Spirit UMS (which commenced operations during the second quarter of 2015) and the $300 million senior unsecured bonds Teekay Offshore issued in May 2014; and
- an increase of $15.0 million as a result of further borrowing under a revolving credit facility Teekay Parent entered into in December 2012 partially offset by repayments made near the end of 2015, and additional interest incurred from two term loans which were drawn in 2015 to finance the acquisition of 12 modern Suezmax tankers, one Aframax tanker and four LR2 product tankers acquired by Teekay Tankers during 2015;

33

partially offset by

- a decrease of $10.3 million relating to lower interest expense on our NOK bonds as a result of the depreciation of the NOK against the U.S. Dollar and a decrease in Norwegian InterBank Offered Rate (or NIBOR), maturity of our NOK bond during 2015, partially offset by the issuance of Teekay LNG's NOK 1,000 million senior unsecured bonds during 2015;
- a decrease of $5.1 million due to an increase in capitalized interest as a result of Teekay LNG exercising three newbuilding options with DSME in December 2014 and entering into an additional newbuilding agreement with Daewoo Shipbuilding & Marine Engineering Co. (or DSME) in February 2015 and two additional newbuilding agreements with HHI in June 2015;
- a decrease of $3.6 million due to lower interest rates on debt facilities and elimination of interest on capital lease obligations relating to Teekay LNG's LNG carriers in the Teekay Nakilat Joint Venture upon debt refinancing and termination of capital lease obligations in December 2014;
- a decrease of $3.1 million relating to accelerated amortization of Teekay Nakilat Joint Venture's deferred debt issuance cost upon completion of its debt refinancing in December 2014;
- a decrease of $2.6 million relating to capitalized interest on the advances Teekay LNG made to the Yamal LNG Joint Venture in July 2014 to fund its proportionate share of the joint venture's newbuilding installments;
- a decrease of $2.6 million due to lower interest expense on Teekay LNG's capital lease obligations associated with the sales of the Algeciras Spirit and Huelva Spirit conventional tankers in February 2014 and August 2014, respectively;
- a decrease of $2.4 million due to lower interest expense on Teekay Parent's 8.5% bonds as a result of bond repurchases during 2014, partially offset by the issuance of an additional $200 million of Teekay Parent's 8.5% bonds in November 2015;
- a decrease of $2.0 million due to an increase in capitalized interest on Teekay Offshore's newbuildings;
- a decrease of $1.7 million due to the impact of a decrease in EURIBOR and depreciation of the Euro against the U.S. Dollar on Teekay LNG's Euro-denominated debt facilities; and
- a decrease of $1.5 million mainly due to the sale of four Suezmax crude oil tankers along with their related debt facilities from Teekay Parent to TIL during February 2014.

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 $102.2 million for 2015, compared to $231.7 million for 2014, as detailed in the table below:

	Year Ended December 31,	
(in thousands of U.S. Dollars)	2015	2014
Realized losses relating to:		
Interest rate swap agreements	(108,036)	(125,424)
Interest rate swap agreement terminations	(10,876)	(1,319)
Foreign currency forward contracts	(21,607)	(4,436)
	(140,519)	(131,179)
Unrealized gains (losses) relating to:		
Interest rate swap agreements	37,723	(86,045)
Foreign currency forward contracts	(418)	(16,926)
Stock purchase warrants	1,014	2,475
	38,319	(100,496)
Total realized and unrealized losses on derivative instruments	(102,200)	(231,675)

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

During 2015 and 2014, we had interest rate swap agreements with aggregate average net outstanding notional amounts of approximately $3.5 billion and $3.6 billion, respectively, with average fixed rates of approximately 3.4% and 3.6%, respectively. Short-term variable benchmark interest rates during these periods were generally less than 1.0% and, as such, we incurred realized losses of $108.0 million and $125.4 million during 2015 and 2014, respectively, under the interest rate swap agreements. We also incurred realized losses of $10.9 million during 2015 from the early termination of one interest rate swap, compared to losses of $1.3 million during 2014 from the termination of interest rate swaps relating to three capital leases, partially offset by a gain on an early termination of one interest rate swap.

Primarily as a result of significant changes in long-term benchmark interest rates during 2015 and 2014, we recognized unrealized gains of $37.7 million for 2015 compared to unrealized losses of ($86.0) million for 2014 under the interest rate swap agreements. Primarily as a result of changes in NOK during 2015 from 2014, we recognized unrealized losses of $0.4 million for 2015 compared to $16.9 million for 2014 under the foreign currency forward contracts.

In 2014, we and Teekay Tankers formed TIL. In connection with the investment by Teekay Tankers and us in a $250 million private placement of common stock by TIL, we and Teekay Tankers received stock purchase warrants entitling us and Teekay Tankers to purchase an aggregate of up to 1.5 million shares of common stock of TIL at a fixed price of $10 per share. Alternatively, if the shares of TIL's common stock trade on a National Stock Exchange or over-the-counter market denominated in NOK, we and Teekay Tankers may also exercise their stock purchase warrants at 61.67 NOK per share using a cashless exercise procedure. During 2015, we recognized a $1.0 million unrealized gain on the stock purchase warrants compared to an unrealized gain of $2.5 million for 2014, 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 Gain (Loss). Foreign currency exchange (losses) gains were ($2.2) million in 2015 compared to $13.4 million in 2014. Our foreign currency exchange (losses) gains, 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 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 beginnind>

6.16

7.19

8.23

Production and operating expenses increased to $6.0 million for 2003, up 136 percent from $2.5 million reported in 2002, as a result of a significant increase in our production during 2003. Measured on a boe basis, 2003 production and operating expenses fell to $7.19/boe, down 13 percent from $8.23/boe in 2002. Drumheller area production significantly reduced our per barrel production and operating expenses. Our Northern access properties generally had higher operating costs per boe compared to the Drumheller area. Production and operating expenses consistently fell throughout 2003 as our field team worked diligently to implement operations efficiencies. Fourth quarter of 2003 production and operating expenses averaged $6.16/boe, down 29 percent from the first quarter average cost of $8.65/boe.

General and Administrative Expenses

Years ended December 31 ($000 s)	2003	2002	% change
Gross G&A Expenses	$ 9,172	$ 6,328	45
Recoveries	(260)	(250)	n/a
Capitalized	(4,063)	(3,180)	n/a
Net G&A	$ 4,849	$ 2,898	67
Per boe	$ 5.82	$ 9.39	(38)

Net G&A expenses increased to $4.8 million in 2003, up from $2.9 million in 2002. This increase can be attributed to increased staffing and associated expenses to support our increased operations base and activities, as well as to a one-time contractual payment made to an officer and director of Canadian Superior. On a unit of production basis, G&A expenses fell 38 percent to $5.82/boe for 2003. Our capitalized $4.1 million of overhead related to exploration and development, representing 44 percent of gross G&A costs.

Interest Expenses

During 2003 we paid $1.5 million in interest on our revolving production loan facility, which at year end had a drawn balance of $12.55 million. Only $158,000 of interest expenses were incurred in 2002 due to the relatively small size of the facility draws in that year.

Interest Income

Interest income of $364,000 was earned by us in 2003 on our Offshore Nova Scotia license term deposits. Interest income was marginally higher in 2002 because of higher interest rates in that year.

Depletion and Amortization

Depletion and amortization expense for 2003 totaled $14.3 million in 2003 up from $5.9 million in 2002. This increase principally related to the 170 percent increase in production resulting from the Drumheller acquisition. 2003 depletion and amortization expenses averaged $17.14/boe.

Taxes

We recorded current taxes only in respect of the federal Large Corporations Tax. The Large Corporations Tax is based on our year-end book value, and was $288,000 in 2003. As a result of the loss from operations of $1.8 million reported in 2003, a reduction in future income taxes of $763,000 was recorded.

Capital Expenditures

Years ended December 31 ($000 s)	**2003**	**2002**	**% change**
Acquisition	$ 54,160	$ 0	100
Exploration & Development	17,801	35,535	(50)
Plants & Facilities & Pipelines	2,787	11,130	(75)
Land & Lease	1,325	4,962	(73)
Seismic	3,859	217	1,678
Capitalized Expenses	4,063	3,181	28
	$ 83,995	$ 55,025	53

We incurred $84.0 million of capital expenditures in 2003, including $54.2 million on the Drumheller acquisition in the first quarter of the year. Exploration and development expenses included the costs of drilling 13 wells at Drumheller in the second half of 2003 and two East Ladyfern wells in the first quarter of 2003. Exploration and development expenses also included approximately $5.5 million for our share of the Mariner I-85 well costs incurred to December 31, 2003.

Ceiling Test

We adopted CICA Accounting Guideline 16 Oil and Gas Accounting - Full Cost effective for our fourth quarter 2003. This guideline limits the carrying value of oil and gas properties to their fair value in a ceiling test calculation which must be performed at least annually. The fair value is estimated to be the future cash flow from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate. No write-down of oil and gas assets was required for 2003 under this guideline.

Liquidity and Capital Resources

At December 31, 2005, we had a $25.0 million revolving production loan facility of which $12.9 million was drawn. In addition, in August, we completed a private placement financing consisting of 5.5 million special warrants at a price of $2.00 per special warrant for total proceeds of $11.0 million before financing costs of $275,000. The special warrants allow purchasers to acquire one common share of Canadian Superior and one half warrant. Each full warrant allows holders to acquire one share of Canadian Superior at a price of $2.50 to the end of June 30, 2006. In December, we completed a private placement financing consisting of 2,976,400 flow through shares at a price of $3.00 per share for total proceeds of $8.9 million. We have approximately $11.8 million in cash deposits available for corporate purpose. In addition, prior to year end we had secured a financing of US$15 million that closed in January 2006 comprised of Units consisting of ten 5% US$100 cumulative redeemable convertible preferred shares, or Preferred Shares, and 80 common share purchase warrants. Each Preferred Share will be convertible into forty common shares of Canadian Superior (6,000,000 common shares in aggregate) at a price of US$2.50 per common share. Also, on February 9, 2006 we completed a private placement of 1,000,000 Units at a price of $2.40 per Unit for gross proceeds of $2,400,000. Each Unit consists of one common share and one-half of one common share purchase warrant. The warrants comprising part of the Units are exercisable until December 31, 2006 at an exercise price of $2.80 per common share.

Our 2006 Western Canadian exploration and development expenditures are expected to be primarily funded from operating cash flow. Additional cash may be required to fund planned 2007 and 2008 capital programs, including programs in Offshore Nova Scotia and Offshore Trinidad. These expenditures may be sourced from cash flow, additional equity financings or potential farm outs, or both, or joint ventures or releases of secured offshore term deposits as additional work expenditures are incurred.

At December 31, 2005, we had $14.4 million of term deposits posted as security against our remaining Offshore Nova Scotia work expenditure bids. Under existing regulations, when a company is the successful bidder for a particular offshore Nova Scotia exploration license, the company must deposit with the Government in cash or by letter of credit an amount equal to 25% of their work commitment expenditure bid (i.e. $0.25 on the dollar value bid). As exploration expenditures are made on a particular exploration license, the deposit is refunded on the same basis, $0.25 on the dollar spent. To the extent that expenditures are not incurred within the periods allowed, we would forfeit our proportionate share of any remaining deposits relating to the unexpended work commitment.

Management believes that the combination of working capital, projected cash flows and our current bank line are sufficient to meet our current capital and operating requirements.

Contractual Obligations

In the normal course of business, we are obligated to make future contractual payments. These obligations, which are set forth below, represent contracts and other commitments that are known and non-cancelable.

	Payment Due by Period				
	Total	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Long-term debt obligations					
Capital (finance) lease obligations	0	0	0	0	
Operating lease obligations	$ 3,370,000	$ 1,197,000	$ 1,907,000	$ 266,000	
Purchase obligations	0	0	0	0	
Other long-term liabilities reflected on the balance sheet under the GAAP of the primary financial statements	8,929,000	8,929,000	0	0	
Total	$ 12,299,000	$ 10,126,000	$ 1,907,000	$ 266,000	

Quantitative and Qualitative Disclosures about Market Risk

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by us will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Management will evaluate exploration and development prospects on an ongoing basis in a manner consistent with industry standards. Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that we will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, we may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Our production is generally sold at prevailing market prices. Periodically, we enter into commodity sales agreements and certain derivative financial instruments to reduce our exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes to protect us against negative commodity price movements and are not used for trading or other speculative purposes. These 2005 activities resulted in a loss of $22,696 which was recorded as a decrease in oil and gas revenues during the period.

We enter into commodity sales agreements and certain derivative financial instruments to reduce our exposure to commodity price volatility. At December 31, 2005, the estimated fair value of these financial instruments was a gain of $23,140.

BUSINESS

We are a crude oil and natural gas exploration and production company with a primary emphasis on the exploration for, and production of, crude oil and natural gas in Western Canada, offshore Nova Scotia, Canada and offshore Trinidad and Tobago.

Our principal properties can be divided into three distinct groups:

1. Trinidad and Tobago;

2. East Coast, Offshore Nova Scotia, Canada; and

3. Western Canadian Holdings.

TRINIDAD AND TOBAGO

On July 20, 2005, we signed the Production Sharing Contract, or PSC, with the Government of Trinidad and Tobago for Intrepid Block 5(c), offshore Trinidad and Tobago. The PSC provides us the right to explore on Block 5(c) which covers 80,041 gross acres and has significant natural gas exploration and development potential off the east coast of the island of Trinidad where we are preparing for exploration drilling.

During 2005, we actively pursued various rig options for the Intrepid drilling. We announced on March 20, 2006 that we had entered into a firm multi-well drilling contract 100% on our own to contract the Kan Tan IV Semi-Submersible Drilling Rig, managed by A. P. Moller - Maersk A/S, or Maersk, of Copenhagen, Denmark and owned by Beijing Zhiyuan Industries Company Limited, or Beijing Zhiyuan, of Beijing, China to drill our first two exploration wells on our Intrepid Block 5(c) offshore Trinidad. These two Canadian Superior operated back-to-back wells will evaluate two large separate potential hydrocarbon bearing structures that are delineated by extensive 3D seismic that we have evaluated. We anticipate that the first well of the two back-to-back wells will commence drilling in September/October 2006 shortly after the Kan Tan IV has completed a scheduled refurbishment currently underway in Brownsville, Texas. These prospects have been estimated to contain over 4 TCF of natural gas and condensate. Structures of similar size are located in the immediate vicinity of our Intrepid Block 5(c).

In addition, our exploration team has continued to evaluate and interpret detailed 3D seismic data over the Intrepid Block 5(c) and over nearby producing fields and have identified at least three drillable prospects and selected a number of drilling locations on these prospects. We have verified that this block has multi-tcf natural gas potential. Also, in addition to working with this extensive and valuable seismic data set, we began reprocessing of the data in the last week of October 2005 to further assist in finalizing the geological prognosis across the block and at the proposed drilling locations. This work continued through the fourth quarter of 2005 and into 2006. In addition, extensive offset well data has been obtained from the Trinidad and Tobago Ministry of Energy and Energy Industries and is being used to confirm data already synthesized and confirm final well design engineering.

Also in the third quarter of 2005, we appointed Mr. Roger De Freitas as Country Manager of operations in Trinidad and Tobago and opened a local country office in Port of Spain. We are undertaking the necessary procurement and contracting for the provision of the various drilling services and materials and have secured the critical longer lead time casing and wellhead components for the first Intrepid well. The wellhead and related components, and several thousand meters of casing, costing several million dollars, have been secured and paid for. We are in the process of transferring certain supplies and inventory from our Nova Scotia operations to Trinidad and Tobago for the first Intrepid well. The Intrepid Block 5(c) has water depths in the range of 150m to 450m and all wells in Block 5(c) will be drilled from a semi submersible drilling rig. In preparation, we have undertaken our environmental assessment and geohazard well site survey work on two of the prospects. To assist us in going forward with our planned drilling in Trinidad, we have entered into a transaction whereby a non-competitive industry financial partner, which will be paying one-third of the exploration program costs to earn one-fourth of our revenue share of these prospects.

Offshore Trinidad is a world class basin with multiple large exploration and development opportunities as evidenced by recent drilling successes in the Columbus Basin, as well as having well developed, and developing, liquid natural gas, or LNG, facilities and capacity, and ready access to international markets. Approximately eighty percent of North America s LNG is supplied from Trinidad and some of the largest producing wells in the world are located in Trinidad close to our acreage.

In addition, in Trinidad and Tobago, we continue to prepare for the first phase of operations on our Mayaro/Guayaguayare (M/G) Tradewinds project, a joint venture with Petrotrin. This joint venture encompasses securing two near-shore Blocks (55,000 gross acres) off the east coast of Trinidad where we have the potential to establish significant oil reserves in the heart of a known producing hydrocarbons-bearing structural trend. On the M/G Block, we are working on the design of a seismic program to evaluate the near-shore block.

OFFSHORE NOVA SCOTIA, CANADA

We have evolved as the largest public company holder of exploration acreage offshore Nova Scotia with 100% interests in six exploration licenses totaling 1,293,946 acres and are one of the few active operators involved in all three main play types in the basin. We have the experience and technical capability to drill and operate some of the most complex and technically challenging wells in the world, whether offshore Nova Scotia or in Trinidad and Tobago.

We have been advised by the Canada-Nova Scotia Offshore Petroleum Board, or CNSOPB, that the consolidation of our deepwater Mayflower exploration license (EL 2406) and our shallow water Mariner exploration license (EL 2409) has been approved by the Government of Canada and the Province of Nova Scotia. This consolidation will come into effect upon the drilling of the next Mariner exploration well and will allow the work commitments and related work commitment deposits for these two exploration licenses (EL 2406 and EL 2409) to be combined, allowing the existing work deposit for Mayflower , approximately $10 million, to be applied directly against the costs of drilling our next Mariner well. In effect, this provides us with $10 million of additional capital to be applied to drilling the next Mariner well. The Mariner Project lands are located approximately nine kilometres northeast of Sable Island, offshore Nova Scotia, encompassing an offshore area of 101,800 acres (100% Canadian Superior), and directly offsets five significant discoveries near Sable Island, including the ExxonMobil Venture natural gas field. The first exploration well, Mariner I-85, was drilled on this block November 2003 to March 2004. Although this exploration well was abandoned untested by the operator, we believe that the well

36

established significant potential natural gas reserves. An independent engineering report has resulted in potential recoverable natural gas reserve estimates between 211 and 632 Bcf on the one Mariner structure on which the Mariner I-85 well was drilled and evaluated, and we intend to proceed with further drilling on the Mariner Block in due course. Two well sites on the Mariner Block have been surveyed in this regard.

Furthermore, upon consolidation, the exploration term for our 100% deepwater Mayflower license (EL 2406) will be extended for two additional years, from the current expiry date of December 31, 2006 to December 31, 2008. Thereafter, 50% of the license area will be extended for an additional two years to December 31, 2010. Our Mayflower deepwater project exploration license covers approximately 712,000 acres and mapping to date indicates the presence of five sizeable deepwater prospects. These large prospects are structural and are typically formed by mobile salt tectonics. We plan to take full advantage of the extended exploration term on Mayflower . We are planning to proceed in the near future with a high resolution seismic program over the Mayflower block to further define targeted structures to enable future drilling and have recently updated our Environmental Impact Assessment in regard to this planned seismic activity.

In addition to our Mariner exploration project targeting Cretaceous and Jurassic gas bearing sands, we continue to monitor drilling activities near our Abenaki Reef Marquis 100% prospects. Our Marquis Project lands encompass two exploration licenses with approximately 111,000 contiguous acres located in shallow water depths close to the existing Sable Offshore Energy Project producing infrastructure and EnCana s Deep Panuke discoveries. We also have identified several other large Cretaceous and Jurassic prospects on our 100% Marauder and 100% Marconi exploration lands which cover an additional 371,000 additional acres offshore Nova Scotia, offsetting the Sable Island area. We have initiated the environmental impact assessment work required prior to conducting seismic and drilling on these properties and this environmental assessment work is ongoing.

WESTERN CANADA

All of our current production in Western Canada is primarily located in the Drumheller, Alberta area, with other production and exploration in the Windfall, Boundary Lake, East Ladyfern, Giroux Lake and Teepee areas.

During 2005, we drilled or participated in 67 gross (28.2 net) wells which included 17 gross (14.4 net) operated wells and 50 gross (13.8 net) non - operated wells. We participated in the completion or tying in of 63 wells for an overall success rate of 94%.

We maintained our extensive land holdings in Western Canada. At December 31, 2005, we held 275,710 gross acres (193,576 net acres) of predominately Canadian Superior operated lands with a high working interest of approximately 70%.

Drumheller Area

In our Drumheller area of Central Alberta, Canada, which has shallow, low cost prospects and year round accessibility and is located approximately 60 miles N.E. of the city of Calgary, we have major acreage and production holdings in both conventional Cretaceous plays and in the Horseshoe Canyon and Mannville Coal Bed Methane, or CBM, plays, and this core area accounts for approximately 90% of our production. In 2005, 64 gross (26 net) wells were drilled in the Drumheller area consisting of 18 gross (13.2 net) conventional wells and 46 gross (12.8 net) Horseshoe Canyon CBM wells. We acquired or purchased five extensive 3D seismic programs, which are critical in continuing the success that we achieved in 2005.

Conventional Plays

The Drumheller area offers a multitude of opportunities that include both oil and gas play types and are contained in five distinct stratigraphic zones. The shallow targets include the Belly River and the Edmonton Groups and range in depth from 300-700 meters (980 - 2300 feet). Well production in these zones range from 50 - 750 mcf/d with associated reserve size of .1 - 2 Bcf.

Intermediate targets in this area include the Medicine Hat and Second White Specks formation which produce between 10 to 100 mcf/d and the Viking formation which can produce up to 1000 mcf/d. We continue to evaluate these formations through logging as it drills into deeper zones. We plan to drill two Viking tests in the first half of 2006.

Deeper targets in the Drumheller area include the Mannville group and the Banff formation, and the Nisku and Leduc formations are being evaluated. The Mannville group typically encounters several reservoirs with average production rates for these horizons ranging from 250 to over 1000 mcf/d. The Banff formation is a carbonate play which ranges in depth from 1100 - 1400 meters (3600 - 4600 feet) and tend to be oil prone. On average the Banff formation can produce oil rates of 20 - 200 bbl/d with reserves ranging from 20 - 200 mbbl. The Nisku and Leduc formations are typically high reserve prospects with high deliverability.

In 2006, we anticipate drilling 25-30 conventional wells in Drumheller, a low cost area with year-round access, and we have an extensive portfolio of multiple-zone locations identified for drilling on our existing acreage. Approximately 66% of these wells will target the Mannville group, 22% will target the Viking or the Belly River and Edmonton groups and the remaining 12% will target the Banff and/or Nisku or Leduc formations.

Coal Bed Methane

Coal bed methane has recently been recognized as one of the emerging plays available to the oil and gas industry, which has contributed significantly to our Proven Reserves. The Drumheller area is in the heart of recent CBM development in Western Canada where we are fortunate to have one of the largest concentrated high working interest land positions with significant land holdings in both the Horseshoe Canyon and the Mannville stratigraphic zones.

Our current activities in CBM are centered on the Horseshoe Canyon in which we drilled or participated in 46 wells during 2005. All of these wells have been successful and we plan to continue to develop these assets in 2006. We hold 157 gross (81 net) sections of Horseshoe Canyon rights. The Horseshoe Canyon Coal depths range from 200 - 400 meters (650 - 1300 feet) and are typically found in 8 - 10 coal seams with thicknesses averaging from 0.75 - 1.5 meters (2.5 - 5 feet). These coals contain dry gas and produce little or no water. We anticipate that we will drill or participate in 20 - 40 Horseshoe Canyon wells in 2006.

An untapped resource that exists in the Drumheller area is the Mannville coals. These coals are between 1000 - 1300 meters (3300 - 4300 feet) in depth with each seam being thicker (up to 4 meters) but less frequent (1 - 5 seams) than the Horseshoe Canyon. Resource potential estimates are still in the early stages but we calculate that it has over 100 BCF (P50) of net sales reserves in this area. Currently we have 42 gross (41 net) sections of land in the Mannville CBM fairway. Drilling for these coals would include horizontal drilling techniques. We will remain cautious with our plans for development of Mannville CBM until the reserve and production parameters are better defined.

Our total acreage for CBM is 185 gross (108 net) sections of which 14 gross (13.4 net) sections have both Horseshoe Canyon and Mannville CBM potential. We will use our results to date on a small portion of our non-operated land to provide a solid foundation for development and operating drilling on this large CBM potential that exists over our extensive operated high working interest acreage base within our Drumheller core producing area. We are working to develop our extensive concentrated land holdings adjacent to recent record land sales with land prices as high as approximately $700,000 per section.

Windfall/Pine Creek/Giroux Lake

We drilled or participated in two wells in the Windfall area in 2005. Both of these wells were successful and have been tied in. Both wells are producing between 500 - 750 mcf/d. We are planning a 2D seismic shoot in the Giroux area and have budgeted two locations in the Windfall/Pine Creek/Giroux area. We continue to look at this higher reward, medium risk area with a view towards further expansion, using its current land base as a nucleus.

Boundary Lake/Teepee

The Boundary Lake / Teepee area is a high reward medium risk area and was a major focus area for us in 2005 and into 2006. At the end of 2005, this property represented a minor portion of our total production, but renewed emphasis has been placed on this year round access area. We purchased additional lands, 2D and 3D seismic data and anticipate drilling two wells in 2006 and participating in a third. We also have several follow-up locations based on the success of the initial drilling. The area has multi-zone potential with typical well reserves in the range of 2 - 5 Bcf and associated production of 1 - 4 MMcf/d.

East Ladyfern

In 2005, we followed up our Slave Point play in the East Ladyfern area with the addition of 2D seismic and the drilling of the 1-26-91-11W6 well. This well was drilled in late January 2005 due to delayed freeze-up and rig availability. Because of early break-up, no testing could be done at the time. The logs over the Slave Point have been subsequently further evaluated and we have now determined that they show gas over water. At this time, because of high costs associated with completing this type of sour natural gas, further testing of this formation is not justified. However, we believe the shallower Cretaceous zones in the 1-26 and other wells in the area show promise. We plan, together with our partner, to complete the 12-27-91-11W6 and the 1-26-91-11W6 well bores and to drill a new shallow location in first half of 2006. If we achieve success in the shallower non-sour lower cost Cretaceous resource play, the needed infrastructure will be brought into the area and may allow economic tie-ins of the Slave Point gas in this area at a later date.

Strategy for Drilling in the Foothills of Alberta West of the 5th Meridian

We are now also focusing our exploration in Western Canada towards the foothills of Alberta, Canada. This area represents an area of high risk - high reward exploration and production with year round access. In this area well reserves can range to over 10 Bcf/well with associated natural gas liquids and can produce at rates of over 5 - 10 MMcf/d.

Competition

The oil and natural gas industry in Canada and Trinidad and Tobago is highly competitive in all aspects, including the exploration for, and the development of, new sources of supply, the acquisition of oil and natural gas interests and the marketing of, crude oil, natural gas and natural gas liquids. We compete with other companies in this sector for the exploration and development of oil and natural gas reserves.

We actively compete for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and natural gas companies. Our competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators, most of which possess significantly greater financial resources than us.

Cyclical Nature of Business

Our business is generally not cyclical, however, our revenue from the sale of natural gas is highly seasonal, with demand and prices for natural gas rising during cold winter months and hot summer months.

Specialized Skills and Knowledge

We believe that our success is largely dependant on the performance of our management and key employees, many of whom have specialized knowledge and skills relating to conventional and offshore oil and natural gas operations. We believe that we have adequate personnel with the specialized skills required to successfully carry out our operations.

Government Regulation

All aspects of the oil and natural gas industry present potential environmental risks and are, accordingly, subject to a variety of Canadian federal, provincial and municipal environmental regulations. These regulatory regimes are laws of general application that apply to us in the same manner as they apply to other participants in the energy industry.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to third parties and may require us to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect our financial condition, capital expenditures, results of operations, competitive position or prospects.

We believe that we conduct our operations in Canada in a manner consistent with environmental regulations as stipulated in provincial and federal legislation and in Trinidad and Tobago in a manner consistent with the environmental regulations of the Republic of Trinidad and Tobago, which are similar to other jurisdictions where Canadian Superior has and continues to work (e.g. offshore Nova Scotia). We are committed to meeting our responsibilities to protect the environment wherever we operate and anticipate making expenditures of both a capital and expense nature to ensure full compliance with laws relating to protection of the environment. We anticipate spending sufficient funds on environmental expenditures in 2006 and in future years in order to comply in all material respects with all environmental requirements related to our field operations. We do not anticipate that such expenditures, as a percentage of cash flow, will be greater than those expected, on average, by other industry operators. We will maintain insurance coverage where available, and financially desirable, in light of risk versus cost factors.

Employment

As of April 1, 2006, we had a total of 36 full-time staff, including 4 staff members in the Halifax office, 7 staff members in the Drumheller field office, 23 staff members in the Calgary office, and 2 staff members in the Trinidad office.

Legal Proceedings

We are involved in various claims and litigation arising in the ordinary course of our business. In the opinion of our management, the various claims and litigation arising therefrom are not expected to have a material adverse effect on our financial position. We maintain insurance, which in the opinion of our management, is in place to address any unforeseen claims.

During 2004, a number of class action proceedings were initiated against Canadian Superior and certain of our directors and officers in the United States District Court, Southern District of New York, in the Ontario Superior Court of Justice and the Quebec Superior Court by plaintiffs alleging to have purchased securities of Canadian Superior and alleging they suffered damages resulting from statements by us regarding our Mariner I-85 exploration well drilled offshore Nova Scotia.

On September 6, 2005, together with our insurers we reached an agreement to settle all securities class action litigation and actions pending in Canada against Canadian Superior and certain of our officers and directors resulting from the drilling last year of the Mariner I-85 exploration well drilled offshore Nova Scotia. The $2.15 million settlement, which is covered by our insurance, was reached with no admission of liability by any party.

On June 8, 2005, we announced that together with our insurers we reached an agreement to settle all securities class action litigation and actions pending in the United States against Canadian Superior and certain of our officers and directors resulting from the drilling last year of the Canadian Superior El Paso Mariner I-85 exploration well drilled with El Paso Corporation offshore Nova Scotia. The US$3.2 million settlement, covered by our insurance, was reached with no admission of liability by any party.

Intercorporate Relationships

We have no subsidiaries which individually represent more than 10% of our total consolidated assets and total consolidated revenues. All of our subsidiaries in the aggregate represent less than 20% of our total consolidated assets and total consolidated revenues. The following list represents current subsidiaries:

Name	Country of Incorporation	Ownership Percent	
Marquis Exploration Ltd	Canada	100	%
Mariner Exploration Inc.	Canada	100	%
Canadian Frontier Energy Corp.	Canada	100	%
3885062 Canada Ltd.	Canada	100	%
Canadian 88 Energy International Inc.	Canada	100	%
Canadian 88 International Inc.	Canada	100	%
Canadian Superior Energy (U.S.A.) Inc.	U.S.A.	100	%

Historical Principal Capital Expenditures/Divestitures

The following table summarizes the capital expenditures incurred by us for the years ended December 31, 2005, December 31, 2004 and December 31, 2003.

Capital Expenditures ($000 s)	Year Ended December 31, 2005	2004	2003
Acquisition/(Disposition)	$ (525)	1,070	54,160
Exploration & Development	23,849	27,894	21,660
Plants, Facilities & Pipelines	5,749	6,696	2,787
Land & Lease	9,073	2,116	1,325
Capitalized Expenses	5,937	4,445	4,063
	$ 44,083	$ 42,221	$ 83,995

Current and Planned Capital Expenditures/Divestitures

The total capital budget for 2006 is estimated at $57.0 million, which is approximately 50% of exploration activity. This includes approximately $37.0 million spent in Western Canada and $20.0 million spent offshore Trinidad and Tobago. The 2006 capital expenditure program will be funded by working capital, cash flow and equity financings.

42

Reserve Information

The following table sets forth our estimated working interest share quantities of proved reserves before royalties as at the end of each of the fiscal years ended December 31, 2005, 2004 and 2003.

RESERVES SUMMARY

	December 31, 2005				**December 31, 2004**				**December 31, 2003**			
	Proved Producing	**Proved Developed Non-producing**	**Proved Undeveloped**	**Total Proved**	**Proved Producing**	**Proved Developed Non-producing**	**Proved Undeveloped**	**Total Proved**	**Proved Producing**	**Proved Developed Non-producing**	**Proved Undeveloped**	**Total Proved**
Light and Medium Oil (Mbbl)	755	10	0	765	768	0	0	768	795	151	75	1,022
Heavy Oil (Mbbl)	0	0	0	0	0	0	0	0	0	0	0	0
Natural Gas (MMcf)	18,008	2,121	2,537	22,666	17,043	2,340	1,025	20,408	15,195	1,424	618	17,237
Natural Gas Liquids (Mbbl)	160	3	2	165	167	18	3	189	170	10	11	191
Total Oil Equivalent (Mbbl)	3,916	366	425	4,707	3,776	408	174	4,358	3,498	399	189	4,086

Production

The following table discloses our net (before royalty interests) production volumes for the fiscal years ended December 31, 2005, 2004 and 2003 for each product type.

PRODUCTION VOLUME

	December 31, 2005				**December 31, 2004**				**December 31, 2003**			
	Light and Medium Crude Oil (Bbls/d)	**Natural Gas (mcf/d)**	**Natural Gas Liquids (Bbls/d)**	**BOE (BOE/d)**	**Light and Medium Crude Oil (Bbls/d)**	**Natural Gas (mcf/d)**	**Natural Gas Liquids (Bbls/d)**	**BOE (BOE/d)**	**Light and Medium Crude Oil (Bbls/d)**	**Natural Gas (mcf/d)**	**Natural Gas Liquids (Bbls/d)**	**BOE (BOE/d)**
Total (all fields)	499	12,083	119	2,632	530	11,533	112	2,565	477	10,210	106	2,285

DIVIDEND POLICY

We have not declared or paid any cash dividends on our common shares. We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not anticipate paying any cash dividends on our common shares in the foreseeable future. Pursuant to the terms of the 5% US$100 cumulative redeemable convertible preferred shares or preferred shares issued in the February 2006 private placement, we may pay quarterly dividends in cash at a 5% annualized cash dividend rate or alternatively by way of issuance of our common shares at market price, based on a 5.75% annualized dividend rate in lieu of the 5% annualized cash dividend rate. The dividends on the Preferred Shares are payable, as and when declared by the board of directors, but such dividends are cumulative and will carry forward to the extent that they are not paid.

DESCRIPTION OF SHARE CAPITAL

Our authorized share capital consists of an unlimited number of common shares and an unlimited number of first preferred shares, issuable in series, each with no par value. As at April 30, 2006, 121,322,963 of our common shares were issued and outstanding and 150,000 of our preferred shares were issued and outstanding. In addition, as of April 30, 2006, there were 9,936,388 common shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of $1.98 per share, 2,195,908 common shares reserved for future grant or issuance under our stock option plan, and 3,950,000 common shares issuable upon the exercise of outstanding warrants and special warrants at a weighted average exercise price of $2.65 per share.

Common Shares

The common shares are entitled to notice of and to vote at all meetings of shareholders (except meetings at which only holders of a specified class or series of shares are entitled to vote) and are entitled to one vote per share. The holders of common shares are entitled to receive such dividends as the board of directors may declare and, upon liquidation, to receive such assets of Canadian Superior as are distributable to holders of common shares. All of the common shares are of the same class and, once issued, rank equally as to entitlement to dividends, voting powers (one vote per share) and participation in assets upon dissolution or winding-up. No common shares have been issued subject to call or assessment. The common shares contain no pre-emptive or conversion rights and have no provisions for redemption or purchase for cancellation, surrender, or sinking or purchase funds. Provisions as to the modification, amendment or variation of such rights or provisions are contained in our articles and bylaws and in the *Business Corporations Act* (Alberta).

Preferred Shares

Our board of directors created a series of 150,000 first preferred shares, series A referred to as 5% US$100 cumulative redeemable convertible preferred shares with a stated value of US$100 per share. Cumulative dividends are payable, as and when declared by the board of directors, on the 5% US$100 cumulative convertible redeemable preferred shares at a rate of 5% per annum in priority to dividends on common shares and all other shares ranking junior to the 5% US$100 cumulative convertible redeemable preferred shares with respect to payment of any dividends. We may satisfy such dividend payment obligations in whole or in part by the issuance of common shares at current market price (the weighted average trading price for 20 trading days on the American Stock Exchange) for an equivalent of 115% of the dividend otherwise payable.

The 5% US$100 cumulative convertible redeemable preferred shares are redeemable by us on or after December 30, 2010 for an amount equal to the stated value together with any accrued and unpaid dividends to the date fixed for redemption. The 5% US$100 cumulative convertible redeemable preferred shares also may be redeemed by us between December 30, 2007 and December 30, 2010, provided that we have completed at least one well on Block 5(c) of our Trinidad and Tobago license and that the current market price prior to the date on which the redemption notice is given was at least 125% of the US$2.50 current conversion price.

The holders of 5% US$100 cumulative convertible redeemable preferred shares may request redemption of their 5% US$100 cumulative convertible redeemable preferred shares for a price per share equal to the stated value, together with all accrued and unpaid dividends on the earlier of December 30, 2010, or upon the occurrence of a takeover of Canadian Superior resulting in the common shares no longer being publicly traded.

The 5% US$100 cumulative convertible redeemable preferred shares are convertible at any time, or in the case called for redemption, on or prior to 4:30 p.m. on the third business day prior to the date fixed for redemption, at the current conversion basis; namely by dividing US$100 by the current conversion price of US$2.50 per common share, subject to adjustments as provided for in our articles of incorporation. The holders of 5% US$100 cumulative convertible redeemable preferred shares are not entitled to any voting rights or to receive notice or attend at any meeting of shareholders unless and until we are in default of the payment of four quarterly dividends, whether or not such dividends have been declared, at which time the holders shall be entitled to receive notice of and attend at meetings of shareholders and shall be entitled to 40 votes in respect of each 5% US$100 cumulative convertible redeemable preferred share.

Additional preferred shares may be issued in one or more series with each series to consist of such number of shares as may, before the issue of the series, be fixed by our board of directors. The board of directors is authorized, before the issue of the series, to determine the designation, rights, restrictions, conditions and limitations attaching to the preferred shares of each series. The preferred shares of each series rank equally with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up and in priority to the common shares and any other of our shares ranking junior to the preferred shares. In addition, if any amount of a fixed cumulative dividend or an amount payable on return of capital in respect of shares of a series of preferred shares is not paid in full, the shares of the series are entitled to participate ratably with the shares of any other series of the same class in respect of such amounts.

Shareholders Rights Plan

Our shareholders have adopted a shareholder rights plan, or Rights Plan. The Rights Plan is contained in an agreement dated as of January 22, 2001, as amended and restated as of May 17, 2001, between us and Computershare Trust Company of Canada (the Rights Plan Agreement). The effective date of the Rights Plan was January 22, 2001 (the Effective Date) and it was amended and restated as of May 17, 2001. The Rights Plan continues in effect until January 22, 2011, being ten years from its effective date.

Under the Rights Plan, one right, or Right, is attached to each common share. The Rights will separate from the common shares and become exercisable eight trading days (the Separation Time) after a person acquires, or commences a take-over bid to acquire, 20% or more of the voting shares or other securities convertible into our voting shares, unless the Separation Time is deferred. The acquisition by any person (an Acquiring Person) of 20% or more of the common shares, other than in a permitted manner, is called a Flip-in Event. Any Rights held by an Acquiring Person will become void

(b) Property Acquisitions

In prior years, the Corporation recorded property acquisitions from related parties in exchange for common shares at the exchange amount, pursuant to Canadian GAAP. Under U.S. GAAP, these related party acquisitions are recorded at the seller s carrying amount. The resulting differences in the recorded carrying amounts of the properties results in differences in depletion and amortization expense in subsequent years.

(c) Ceiling Test

At December 31, 2005, the Corporation applied a ceiling test to its petroleum and natural gas properties. Under Canadian GAAP, the application of this test required no adjustment to the carrying value of the Corporation s petroleum and natural gas properties.

For U.S. GAAP purposes, the ceiling test used December 31, 2005 prices of:

Gas (per thousand cubic feet)	$10.35 CDN
Oil and natural gas liquids (per barrel)	$66.25 CDN

The application of the test resulted in no reduction being in the carrying value of the Corporation s petroleum and natural gas properties under either U.S. or Canadian GAAP for 2005.

At December 31, 2004, the Corporation applied a ceiling test to its petroleum and natural gas properties using December 31, 2004 prices of:

Gas (per thousand cubic feet)	$6.35 CDN
Oil and natural gas liquids (per barrel)	$50.25 CDN

The application of the test resulted in a $10.0 million pre-tax reduction ($8.6 million after tax) in the carrying value of the Corporation s petroleum and natural gas properties under U.S. GAAP. Under Canadian GAAP, the application of this test required no adjustment to the carrying value of the Corporation s petroleum and natural gas properties.

At December 31, 2003, the Corporation applied the ceiling test to its petroleum and natural gas properties using December 31, 2003 prices of:

Gas (per thousand cubic feet)	$6.10 CDN
Oil and natural gas liquids (per barrel)	$34.92 CDN

The application of the test resulted in a $34.1 million pre-tax reduction ($22.0 million after tax) in the carrying value of the Corporation s petroleum and natural gas properties under U.S. GAAP. Under Canadian GAAP, the application of this test required no adjustment to the carrying value of the Corporation s petroleum and natural gas properties.

The resulting differences in the recorded carrying amounts of the properties results in differences in depletion, amortization and accretion expenses in subsequent years.

(d) Stock Based Compensation

Under U.S. GAAP, FAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. As permitted by FAS 123, the Corporation elected to follow the intrinsic value method of accounting for stock-based compensation arrangements, as provided for in Accounting Principles Board (APB) Opinion 25. Since all options were granted with exercise prices equal to the market price when the options were granted, no compensation expense has been charged to income at the time of the option grants.

Effective January 1, 2004, the Corporation retroactively adopted the Canadian GAAP policy for Stock Based Compensation . This standard requires the Corporation to measure all stock based payments using the fair value method of accounting, and recognize the compensation expense over the vesting period of the related options with a corresponding increase in contributed surplus. This change has resulted in a U.S. GAAP difference and has reduced both the reported net loss and contributed surplus by $3,657,000 (2004 $2,612,000, 2003 - $771,000) for the year ended December 31, 2005.

(e) Asset Retirement Obligation

The Corporation adopted with retroactive application the U.S. GAAP policy for asset retirement obligations as of January 1, 2003 The change to the January 1, 2003 reported values were to increase: petroleum and natural gas properties by $888,000, asset retirement obligation by $632,000, future income tax liability by $109,000 and net loss by $147,000. This application did not have a significant impact on the Corporation s earnings and did not impact the Corporation s net loss per share. This policy was adopted under Canadian GAAP effective January 1, 2004 and as such, is no longer a reconciling item between Canadian GAAP and U.S. GAAP.

Additional U.S. GAAP Disclosures

FAS 133

At times the Corporation will use derivative financial instruments to manage commodity price exposure. Effective January 1, 2001 the Corporation adopted the provisions of FAS 133 which requires that all derivatives be recognized as assets and liabilities on the balance sheet and measured at fair value. Gains or losses, including unrealized amounts, on derivatives that have not been designated as hedges, or were not effective as hedges, are included in income as they arise.

For derivatives designated as fair value hedges, changes in the fair value are recognized in income together with changes in the fair value of the hedged item. For derivatives designated as cash flow hedges, changes in the fair value of the derivatives are recognized in other comprehensive income until the hedged items are recognized in income. Any change in the fair value of the derivatives that is not effective in hedging the changes in future cash flows is included in income as they arise.

At December 31, 2005 and 2004 the Corporation did not have any derivative financial instruments that were not designated as fair value hedges.

FAS 123(R)

In December 2004, the Financial Accounting Standards Board (FASB) issued FAS 123(R), Share-based Payment , which replaces FAS 123 and supersedes APB Opinion 25. FAS 123(R) requires compensation cost related to share-based payments be recognized in the financial statements and that the cost must be measured based on the fair value of the equity or liability instruments issued. Under FAS 123(R) all share-based payment plans must be valued using option-pricing models. FAS 123(R) is effective for the financial year beginning January 1, 2006. The Corporation has not yet determined what, if any impact this change will have on the reconciliation with U.S. GAAP

FIN 46 - Accounting for Variable Interest Entities

In January 2003, the FASB issued Financial Interpretation 46 Accounting for Variable Interest Entities (FIN 46) that requires the consolidation of Variable Interest Equities (VIEs). VIEs are entities that have insufficient equity or their equity investors lack one or more of the specified elements that a controlling entity would have. The VIEs are controlled through financial interests that indicate control (referred to as variable interests). Variable interests are the rights or obligations that expose the holder of the variable interest to expected losses or expected residual gains of the entity. The holder of the majority of an entity s variable interests is considered the primary beneficiary of the VIE and is required to consolidate the VIE. In December 2003 the FASB issued FIN 46R which superseded FIN 46 and restricts the scope of the definition of entities that would be considered VIEs that require consolidation. The Corporation does not believe FIN 46R results in the consolidation of any additional entities.

SAB 106

In September 2004, the Securities and Exchange Commission issued Staff Accounting Bulletin 106 (SAB 106) regarding the application of FAS 143 by oil and gas producing entities that follow the full cost accounting method. SAB 106 states that after the adoption of FAS 143 the future cash flows associated with the settlement of asset retirement obligations that have been accrued on the balance sheet should be excluded from the computation of the present value of estimated future net revenues for purposes of the full cost ceiling test calculation. The Corporation excludes the future cash outflows associated with settling asset retirement obligations from the present value of estimated future net cash flows and does not reduce the capitalized oil and gas costs by the asset retirement obligation accrued on the balance sheet. Costs subject to depletion and depreciation include estimated costs required to develop proved undeveloped reserves and the associated addition to the asset retirement obligations. The adoption of SAB 106 in the fourth quarter of 2004 did not have a material effect on the results of the ceiling test or depletion, depreciation and amortization calculations.

FAS 153

In December 2004, the FASB issued FAS 153 which deals with the accounting for the exchanges of nonmonetary assets. FAS 153 is an amendment of APB Opinion 29. APB Opinion 29 requires that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. FAS 153 amends APB Opinion 29 to eliminate the exception from using fair market value for nonmonetary exchanges of similar productive assets and introduces a broader exception for exchanges of nonmonetary assets that do not have commercial substance. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Corporation does not believe that the application of FAS 153 will have an impact on the financial statements.

PRESENTATION

There are different presentations between Canadian and U.S. GAAP which are as follows:

1) No subtotal is permitted under U.S. GAAP within cashflow from operations on the statement of cashflows.

2) Under U.S. GAAP, there is no difference between net income and other comprehensive income.

PART II

INFORMATION NOT REQUIRED TO BE DELIVERED

TO OFFEREES OR PURCHASERS

ITEM 6. INDEMNIFICATION

The *Business Corporations Act* (Alberta), under which Canadian Superior is incorporated, permits a corporation to indemnify its directors and officers, including those of its subsidiaries, for costs, charges and expenses, including amounts paid to settle or satisfy any judgment reasonably incurred in respect of any civil, criminal or administrative action or proceeding, if the director acted honestly and in good faith with a view to the best interests of the corporation and, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the director or officer had reasonable grounds for believing that his or her conduct was lawful. Our bylaws provide that Canadian Superior shall indemnify a director or officer within the limitations set forth in its governing statute.

ITEM 7. RECENT SALES OF UNREGISTERED SECURITIES

The following securities were sold by us within the last three years which were not registered under the Securities Act:

1. On various dates to the present date in 2006, we issued an aggregate of 1,860,667 common shares pursuant to the exercise of options previously granted under our stock option plan. No underwriters were involved. The weighted average issue price was $1.84 per share, for an aggregate issue price of $3,422,194. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. Such offers and sales occurred outside the United States.

2. On February 24, 2006, we issued 260,439 common shares to a former director and officer in Alberta, Canada in satisfaction of indebtedness owed by us to him. No underwriters were involved. The effective issue price was $2.73 per share, for an effective aggregate issue price of $710,999. The issue of shares was pursuant to a prospectus exemption under securities legislation in Alberta, Canada. Such offer and sale occurred outside the United States.

3. On February 9, 2006, we issued an aggregate of 1,000,000 units in Canada. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant entitled the holder to purchase one common share until December 31, 2006 at an exercise price of $2.80 per common share. The issue price was $2.40 per unit, for an aggregate issue price of $2,400,000. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. Such offers and sales occurred outside the United States.

4. On February 1, 2006, we issued 15,000 preferred share purchase units to a single purchaser in the United States. Each preferred share purchase unit consists of ten 5% US$100 cumulative convertible redeemable preferred shares and 80 common share purchase warrants. Each warrant entitles the holder to purchase one common share for thirty-six months from February 1, 2006 at an exercise price of US$3.00 per common share. No underwriters were involved. The issue price was US$1,000 per preferred share purchase unit, for an aggregate issue price of US$15,000,000. The issue of units was pursuant to a prospectus exemption under securities legislation in Alberta, Canada. The sales of such securities in the United States were exempt from registration under Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering.

5. On various dates during 2005, we issued an aggregate of 852,444 common shares pursuant to the exercise of options previously granted under our stock option plan. No underwriters were involved. The weighted average issue price was $1.22 per share, for an aggregate issue price of $1,043,881. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. Such offers and sales occurred outside the United States.

6. On various dates in November and December 2005, we issued an aggregate of 2,976,400 flow-through common shares to a number of purchasers in Canada. No underwriters were involved. The issue

price was $3.00 per share, for an aggregate issue price of $8,929,200. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. Such offers and sales occurred outside the United States.

7. In September 2005, we issued an aggregate of 5,500,000 common shares and 2,750,000 warrants to a number of purchasers in Canada and the United States. Each warrant entitles the holder to purchase one common share until June 30, 2006 at an exercise price of $2.50 per common share or the equivalent in U.S. dollars. The common shares and warrants were issued on exercise of 5,500,000 special warrants issued on various dates in July 2005. Brant Securities Limited acted as selling agent for sales to purchasers in Canada. There was no underwriter or agent for sales to purchasers in the United States. The issue price was $2.00 per special warrant, for an aggregate issue price of $11,000,000. The issue of common shares and warrants in Canada was pursuant to a short form prospectus filed with securities commissions in various provinces of Canada. The sales of such securities in the United States were exempt from registration under Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering.

8. On various dates during 2004, we issued an aggregate of 1,299,168 common shares pursuant to the exercise of options previously granted under our stock option plan. No underwriters were involved. The weighted average issue price was $1.13 per share, for an aggregate issue price of $1,461,952. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. Such offers and sales occurred outside the United States.

9. On various dates during 2004, we issued an aggregate of 3,486,013 common shares pursuant to the exercise of warrants granted in 2003 and 2004. No underwriters were involved. The issue prices were $2.00 per share for 3,002,000 common shares and $3.20 per share for 484,013 common shares, for an aggregate issue price of $7,552,842. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. The sales of such securities in the United States were exempt from registration under Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering.

10. On various dates in December 2004, we issued an aggregate of 1,377,000 flow-through common shares to a number of purchasers in Canada. Acumen Capital Finance Partners Limited and Maison Placements Canada Inc. acted as selling agents. The issue price was $2.50 per share, for an aggregate issue price of $3,442,500. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. Such offers and sales occurred outside the United States.

11. In February 2004, we issued an aggregate of 7,400,180 common shares, 2,466,726 warrants and 142,857 flow-through common shares to a number of purchasers in Canada and the United States. Each warrant entitled the holder to purchase one common share until March 31, 2004 (which was subsequently extended to December 31, 2004 for warrants held by persons other than insiders and their associates and affiliates) at an exercise price of $3.20 per common share. The common shares and warrants were issued on exercise of 7,400,180 special warrants issued on various dates in December 2003 and January 2004. The flow-through common shares were issued on exercise of 142,857 flow-through special warrants issued on December 31, 2003. Maison Placements Canada Inc. acted as selling agent for sales of special warrants to purchasers in Canada and First Albany Capital and Pritchard Capital Partners, LLC acted as selling agents for sales of special warrants to purchasers in the United States. There was no underwriter or agent for sales of the flow-through special warrants. The issue prices were $3.00 per special warrant and $3.50 per flow-through special warrant, for an aggregate issue price of $22,700,540. The issue of common shares, warrants and flow-through common shares in Canada was pursuant to a short form prospectus filed with securities commissions in various provinces of Canada.

The issue of special warrants was pursuant to prospectus exemptions under securities legislation in various provinces of Canada and the issue of flow-through special warrants was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. The sales of such securities in the United States were exempt from registration under Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering.

12. On various dates during 2003, we issued an aggregate of 1,624,665 common shares pursuant to the exercise of options previously granted under our stock option plan. No underwriters were involved. The weighted average issue price was $0.99 per share, for an aggregate issue price of $1,601,045. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. Such offers and sales occurred outside the United States.

13. On various dates during 2003, we issued an aggregate of 1,206,166 common shares pursuant to the exercise of warrants granted on March 20, 2003. No underwriters were involved. The issue price was $2.00 per share, for an aggregate issue price of $2,412,332. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. The sales of such securities in the United States were exempt from registration under Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering.

14. In November and December 2003, we issued an aggregate of 4,998,552 flow-through common shares to a number of purchasers in Canada. No underwriters were involved. The issue price was $3.25 per share, for an aggregate issue price of Cdn. $16,245,005. The issue of shares was pursuant to prospectus exemptions under securities legislation in various provinces of Canada. Such offers and sales occurred outside the United States.

15. On July 10, 2003, we issued 800,000 flow-through common shares to a single purchaser in Ontario, Canada. No underwriters were involved. The issue price was $1.90 per share, for an aggregate issue price of $1,520,000. The issue of shares was pursuant to a prospectus exemption under securities legislation in Ontario, Canada. Such offer and sale occurred outside the United States.

16. On March 20, 2003, we issued an aggregate of 9,040,333 units to a number of purchasers in Canada and the United States. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant entitled the holder to purchase one common share until March 20, 2004 at an exercise price of $2.00 per common share. Maison Placements Canada Inc. and Acadian Securities Incorporated acted as selling agents for sales to purchasers in Canada. There was no underwriter or agent for sales to purchasers in the United States. The issue price was $1.50 per special warrant, for an aggregate issue price of $13,560,500. The issue of units was pursuant to a short form prospectus filed with securities commissions in various provinces of Canada. The sales of such securities in the United States were exempt from registration under Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering.

17. On February 25, 2003, we issued an aggregate of 13,400,000 common shares and 54,000 underwriters compensation warrants. Each warrant entitled the holder to purchase one common share until February 24, 2004 at an exercise price of $2.00 per common share. Octagon Capital Corporation, Maison Placements Canada Inc., Jennings Capital Inc. and Wolverton Securities Ltd. acted as underwriters for sales to purchasers in Canada. The issue price was $1.60 per share, for an aggregate issue price of $21,440,000. The issue of common shares and warrants was pursuant to a short form prospectus filed with securities commissions in various provinces of Canada. Such offers and sales occurred outside the United States.

ITEM 9. EXHIBITS

(a) The following exhibits are filed herewith:

Exhibit Number	**Exhibit Description**
3.1	Articles of Incorporation
3.2	Bylaws
4.1	Shareholder Rights Plan
4.2	Registration Rights Agreement
5.1	Opinion of Burnet, Duckworth & Palmer LLP
10.1	Stock Option Plan
21.1	List of Subsidiaries of Canadian Superior Energy Inc.
23.1	Consent of Meyers Norris Penny LLP, Independent Registered Public Accounting Firm
23.2	Consent of KPMG LLP, Independent Registered Public Accounting Firm
23.3	Consent GLJ Petroleum Consultants Ltd.
23.4	Consent of Burnet, Duckworth & Palmer LLP (included in Exhibit 5.1).
24.1	Power of Attorney (set forth on signature page to this Registration Statement).

(b) Financial Statement Schedules

All supplemental schedules are omitted because of the absence of conditions under which they are required or because the information is shown in the financial statements or notes thereto.

ITEM 10. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more that 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in this Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A of Form 20-F at the start of any delayed offering or throughout a continuous offering; provided that with respect to a registration statement on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Securities Act or Rule 3-19 if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Exchange Act that are incorporated by reference in the Form F-3.

(b) The undersigned registrant hereby further undertakes that, for the purposes of determining any liability under the Securities Act, each filing of the registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to existing provisions or arrangements whereby the registrant may indemnify a director, officer or controlling person of the registrant against liabilities arising under the Securities Act, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Calgary, Alberta, Country of Canada, on the 12th day of May, 2006.

CANADIAN SUPERIOR ENERGY INC.

By:	/s/ GREGORY S. NOVAL Gregory S. Noval Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN AND WOMEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Gregory S. Noval and Ross A. Jones, and each of them, either of whom may act without the joinder of the other, the true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution and resubstitution, to execute in the name, place and stead of the undersigned, in any and all such capacities, any and all amendments (including post-effective amendments) to this Registration Statement, including post-effective amendments and supplements thereto, and all instruments necessary or in connection therewith, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to each such attorney-in-fact and agent, full power and authority to do and perform in the name and on behalf of the undersigned each and every act and thing whatsoever necessary or advisable to be done, as fully and to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933 this Registration Statement on Form F-1 has been signed by the following persons in the capacities indicated on May 12, 2006.

/s/ GREGORY S. NOVAL Gregory S. Noval	Chief Executive Officer and Director
/s/ ROSS A. JONES Ross A. Jones	Chief Financial Officer (Principal Accounting Officer)
/s/ LEIGH BILTON Leigh Bilton	Director
/s/ MICHAEL E. COOLEN Michael E. Coolen	Director
/s/ CHARLES DALLAS Charles Dallas	Director
/s/ THOMAS J. HARP Thomas J. Harp	Director
/s/ GERALD J. MAIER Gerald J. Maier	Director
/s/ ALEXANDER SQUIRES Alexander Squires	Director
/s/ KAARE IDLAND Kaare Idland	Director
/s/ RICHARD M. WATKINS Richard M. Watkins	Authorized Representative in the United States

II-6

EXHIBIT INDEX

Exhibit Number	**Exhibit Description**
3.1	Articles of Incorporation
3.2	Bylaws
4.1	Shareholder Rights Plan
4.2	Registration Rights Agreement
5.1	Opinion of Burnet, Duckworth & Palmer LLP
10.1	Stock Option Plan
21.1	List of Subsidiaries of Canadian Superior Energy Inc.
23.1	Consent of Meyers Norris Penny LLP, Independent Registered Public Accounting Firm
23.2	Consent of KPMG LLP, Independent Registered Public Accounting Firm
23.3	Consent GLJ Petroleum Consultants Ltd.
23.4	Consent of Burnet, Duckworth & Palmer LLP (included in Exhibit 5.1).
24.1	Power of Attorney (set forth on signature page to this Registration Statement).

II-7

---

ical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">
Other current assets
404

Advances on newbuilding contracts
164

Other assets - long-term
395

Goodwill
2,032

Total assets acquired
3,289

LIABILITIES

Current liabilities	387
Other long-term liabilities	286
Total liabilities assumed	673
Net assets acquired	2,616
Consideration	2,616

The goodwill recognized in connection with the ALP acquisition is attributable primarily to the assembled workforce of ALP, including their experience, skills and abilities. Operating results of ALP are reflected in the Company's consolidated financial statements commencing March 14, 2014, the effective date of the acquisition. On a pro forma basis for the Company for the years ended December 31, 2014 and 2013, there would be no material changes to revenues and net income giving effect to Teekay Offshore's acquisition of ALP as if it had taken place on January 1, 2014.

h)Tanker Investments Ltd.

In January 2014, Teekay and Teekay Tankers formed Tanker Investments Ltd. (or TIL), which seeks to opportunistically acquire, operate and sell modern second-hand tankers to benefit from an expected recovery in the tanker market. In connection with TIL's formation, Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase in the aggregate up to 1.5 million shares of common stock of TIL (see Note 14). The stock purchase warrants are derivative assets for accounting purposes which had an aggregate value of $0.6 million as at December 31, 2016 (2015 - $10.3 million). Teekay also received one Series A-1 preferred share and Teekay Tankers received one Series A-2 preferred share, each of which entitles the holder to elect one board member of TIL. The preferred shares do not give the holder a right to any dividends or distributions of TIL. The Company accounts for its investment in TIL using the equity method. As of December 31, 2016, Teekay and Teekay Tankers ownership interest in TIL totaled 19.55% (2015 - 17.62%).

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

4. Equity Financing Transactions of the Daughter Companies

During the years ended December 31, 2016, 2015, and 2014, the Company's publicly traded subsidiaries, Teekay Tankers, Teekay Offshore and Teekay LNG, completed the following public offerings and private placements of equity securities:

	Total Proceeds Received $	Less: Teekay Corporation Portion $	Offering Expenses $	Net Proceeds Received $
2016				
Teekay Offshore Preferred D Units Offering [1]	100,000	(26,000)	(2,750)	71,250
Teekay Offshore Common Units Offering	102,041	(2,041)	(2,550)	97,450
Teekay Offshore Continuous Offering Program	31,819	(636)	(792)	30,391
Teekay Offshore Private Placement [2]	24,874	(13,167)	—	11,707
Teekay LNG Preferred A Units Offering	125,000	—	(4,293)	120,707
Teekay Tankers Continuous Offering Program	7,747	—	(189)	7,558
2015 [3]				
Teekay Offshore Preferred B Units Offering	125,000	—	(4,210)	120,790
Teekay Offshore Preferred C Units Offering	250,000	—	(250)	249,750
Teekay Offshore Continuous Offering Program	3,551	(71)	(66)	3,414
Teekay LNG Continuous Offering Program	36,274	(725)	(900)	34,649
Teekay Tankers Public Offering	13,716	—	(31)	13,685
Teekay Tankers Continuous Offering Program	94,595	—	(2,155)	92,440
Teekay Tankers Private Placement	109,907	—	—	109,907
2014 [4]				
Teekay Offshore Continuous Offering Program	7,784	(156)	(153)	7,475
Teekay Offshore Direct Equity Placement	178,569	(3,571)	(75)	174,923
Teekay LNG Public Offering	140,784	(2,816)	(299)	137,669
Teekay LNG Continuous Offering Program	42,556	(851)	(901)	40,804
Teekay Tankers Public Offering	116,000	(20,000)	(4,810)	91,190

(1) In June 2016, Teekay Offshore issued 4,000,000 of its 10.50% Series D Preferred Units and 4,500,000 warrants exercisable to acquire up to 4,500,000 common units at an exercise price equal to the closing price of Teekay Offshore's common units on June 16, 2016, or $4.55 per unit (or the $4.55 Warrants) and 2,250,000 warrants exercisable to acquire up to 2,250,000 common units with an exercise price at a 33% premium to the closing price of Teekay Offshore's common units on June 16, 2016, or $6.05 per unit (or the $6.05 Warrants) (together, the Warrants). The Warrants have a seven-year term and are exercisable any time after six months following their issuance date. The Warrants are to be net settled in either cash or common units at Teekay Offshore's option. The gross proceeds from the sale of these securities was $100.0 million ($97.2 million net of offering costs).

Teekay purchased for $26.0 million a total of 1,040,000 of Teekay Offshore's Series D Preferred Units. Teekay also received 1,170,000 of the $4.55 Warrants and 585,000 of the $6.05 Warrants. The purchase of Teekay Offshore Series D Preferred Units has been accounted for as an equity transaction. Therefore, no gains or losses were recognized in the Company's consolidated statements of income (loss) as a result of this purchase.

Net cash proceeds from the sale of these securities of $71.3 million, which excludes Teekay's investment, was allocated on a relative fair value basis to the Series D Preferred Units ($61.1 million), to the $4.55 Warrants ($7.0 million) and to the $6.05 Warrants ($3.1 million). The Warrants qualify as freestanding financial instruments and are accounted for separately from the Series D Preferred Units. The Series D Preferred Units are presented in the Company's consolidated balance sheets as redeemable non-controlling interest in temporary equity which is above the equity section but below the liabilities section as they are not mandatorily redeemable and the prospect of a forced redemption paid with cash due to a change of control event is not presently probable. The Warrants are recorded as non-controlling interests in the Company's consolidated balance sheets.

(2) In 2016, Teekay Offshore issued 4.7 million common units for a total value of $24.9 million (including the general partner's 2% proportionate capital contribution of $0.5 million) as a payment-in-kind for the distributions on Teekay Offshore's Series C-1 Cumulative Convertible Perpetual Preferred Units (or the Series C-1 Preferred Units) and Series D Preferred Units and Teekay Offshore's common units and general partner interest held by subsidiaries of Teekay. In June 2016, Teekay Offshore agreed with Teekay that, until the Teekay Offshore's Norwegian Kroner bonds maturing in 2018 have been repaid, all cash distributions (other than with respect to incentive distribution rights) to be paid by Teekay Offshore to Teekay or its affiliates, including Teekay Offshore's general partner, will instead be paid in Teekay Offshore common units or from the proceeds of the sale of common units. Teekay Offshore issued Teekay 2.5 million common units (including the general partner's 2% proportionate capital contribution) as a payment-in-kind for the distribution on Teekay Offshore's Series D Preferred Units, common units and general partner interest held by Teekay and its subsidiaries.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

(3) In 2015, in addition to the issuances of equity to third parties noted in the table above, Teekay purchased $30.0 million or 4.5 million shares of Class A common stock of Teekay Tankers for Teekay Tankers to partially finance the acquisition of 12 modern Suezmax tankers from Principal Maritime (see Note 3b), $300.0 million or 14.4 million common units of Teekay Offshore for Teekay Offshore to partially finance the July 1, 2015 acquisition of the Petrojarl Knarr FPSO from Teekay, and $45.5 million or 6.5 million shares of Class B common stock of Teekay Tankers to finance the acquisition of SPT (see Note 3c). These increases in Teekay's ownership interests in Teekay Tankers and Teekay Offshore have been accounted for as equity transactions. Therefore, no gains or losses were recognized in the Company's consolidated statements of income as a result of these purchases. However, the carrying amount of the non-controlling interests' share of Teekay Offshore and Teekay Tankers increased by an aggregate of $168.1 million and retained earnings decreased by $168.1 million to reflect the increase in Teekay's ownership interest in Teekay Offshore and Teekay Tankers and the increase in the carrying value of Teekay Offshore's and Teekay Tankers' total equity. This adjustment to non-controlling interest and retained earnings was primarily the result of Teekay Offshore's 14.4 million common units being issued to Teekay at fair value, which was significantly greater than the carrying value.

(4) In August 2014, Teekay Tankers purchased from Teekay a 50% interest in Teekay Tanker Operations Ltd. (or TTOL), which owns conventional tanker commercial management and technical management operations, including the direct ownership in three commercially managed tanker pools, for an aggregate price of approximately $23.5 million, including net working capital. As consideration for this acquisition, Teekay Tankers issued to Teekay 4.2 million Class B common shares. The 4.2 million Class B common shares had an approximate aggregate value of $15.6 million, or $3.70 per share, when the purchase price was agreed to between the parties and an aggregate value of $17.0 million, or $4.03 per share, on the acquisition closing date. The purchase price, for accounting purposes, is based upon the value of the Class B common shares on the acquisition closing date. In addition, Teekay Tankers reimbursed Teekay for $6.5 million of working capital it assumed from Teekay in connection with the purchase. The book value of the assets acquired, including working capital, was $16.9 million on the date of acquisition.

As a result of the public offerings and equity placements of Teekay Tankers, Teekay Offshore and Teekay LNG, the Company recorded increases (decreases) to retained earnings of $9.7 million (2016), $(152.7) million (2015) and $68.4 million (2014). These amounts represent Teekay's dilution gains (losses) from the issuance of units and shares by these consolidated subsidiaries.

5. Goodwill, Intangible Assets and In-Process Revenue Contracts

Goodwill

The carrying amount of goodwill for the years ended December 31, 2016 and 2015, for the Company's reportable segments are as follows:

	Teekay Offshore $	Teekay LNG - Liquefied Gas Segment $	Conventional Tanker Segment $	Total $
Balance as of December 31, 2015 and 2014	132,940	35,631	—	168,571
Goodwill acquired	—	—	8,059	8,059
Balance as of December 31, 2016	132,940	35,631	8,059	176,630

In July 2015, Teekay Tankers acquired SPT. The estimates of fair value were finalized in the first quarter of 2016 and resulted in an increase in goodwill of $8.1 million from preliminary estimates (see Note 3c).

Intangible Assets

As at December 31, 2016, the Company's intangible assets consisted of:

	Gross Carrying Amount $	Accumulated Amortization $	Net Carrying Amount $
Customer contracts	317,222	(245,705)	71,517
Customer relationships	22,500	(4,842)	17,658
Other intangible assets	1,000	(1,000)	—
	340,722	(251,547)	89,175

As at December 31, 2015, the Company's intangible assets consisted of:

	Gross Carrying Amount $	Accumulated Amortization $	Net Carrying Amount $
Customer contracts	316,684	(234,894)	81,790
Customer relationships	30,879	(1,260)	29,619
Other intangible assets	1,000	(500)	500
	348,563	(236,654)	111,909

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

In July 2015, as part of Teekay Tankers' acquisition of SPT (see Note 3c), Teekay Tankers ascribed a value of $30.9 million to the customer relationships assumed as part of the acquisition of the STS transfer business. The Company is amortizing the customer relationships over a period of 10 years. The estimates of fair value were finalized in the first quarter of 2016 and resulted in a decrease in intangible assets by $8.4 million from preliminary estimates. This change did not have a material impact to the Company's consolidated statement of income for the year ended December 31, 2016. Amortization expense relating to this acquisition for the years ended December 31, 2016 and 2015 were $3.6 million and 1.3 million, respectively, which is included in depreciation and amortization.

Aggregate amortization expense of intangible assets for the year ended December 31, 2016, was $14.9 million (2015 - $13.6 million, 2014 - $13.2 million), which is included in depreciation and amortization. Amortization of intangible assets following 2016 is expected to be $13.2 million (2017), $12.0 million (2018), $11.2 million (2019), $10.9 million (2020), $10.7 million (2021) and $31.3 million (thereafter).

In-Process Revenue Contracts

As part of the Company's acquisition of FPSO units from Sevan Marine ASA (or Sevan) and its previous acquisition of Petrojarl ASA (subsequently renamed Teekay Petrojarl AS, or Teekay Petrojarl), and Teekay LNG's acquisition of BG's ownership interests in four LNG carrier newbuildings, the Company assumed certain FPSO contracts and time-charter-out contracts with terms that were less favorable than the then prevailing market terms, and a service obligation for shipbuilding supervision and crew training services for the four LNG carrier newbuildings. At the time of the acquisitions, the Company recognized liabilities based on the estimated fair value of these contracts and service obligations. The Company is amortizing these liabilities over the estimated remaining terms of their associated contracts on a weighted basis, based on the projected revenue to be earned under the contracts.

Amortization of in-process revenue contracts for the year ended December 31, 2016 was $28.1 million (2015 - $30.1 million, 2014 - $40.9 million), which is included in revenues on the consolidated statements of income. Amortization of in-process revenue contracts following 2016 is expected to be $34.5 million (2017), $22.7 million (2018), $14.3 million (2019), $13.8 million (2020), $13.8 million (2021) and $23.6 million (thereafter).

6. Accrued Liabilities and Other and Other Long-Term Liabilities

Accrued Liabilities and Other

	December 31, 2016 $	December 31, 2015 $
Voyage and vessel expenses	177,868	168,120
Interest	64,362	66,110
Payroll and benefits and other	70,904	88,239
Deferred revenues and gains - current	78,766	76,883
Loans from affiliates	11,785	12,426
Liabilities associated with assets held for sale	—	500
	403,685	412,278

Other Long-Term Liabilities

	December 31, 2016 $	December 31, 2015 $
Deferred revenues and gains	210,434	248,984
Guarantee liability	24,373	26,467
Asset retirement obligation	44,675	25,484
Pension liabilities	8,599	14,953

Contingent consideration liability	—	6,225
Unrecognized tax benefits and deferred income tax	24,340	21,967
Other	20,815	8,298
	333,236	352,378

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

7. Long-Term Debt

	December 31, 2016	December 31, 2015
	$	$
Revolving Credit Facilities	1,119,808	1,500,848
Senior Notes (8.5%) due January 15, 2020	592,657	592,657
Norwegian Kroner-denominated Bonds due through May 2021	628,257	621,957
U.S. Dollar-denominated Term Loans due through 2028	3,702,997	4,020,665
U.S. Dollar Bonds due through 2024	466,680	502,449
Euro-denominated Term Loans due through 2023	219,733	241,798
Total principal	6,730,132	7,480,374
Less unamortized discount and debt issuance costs	(90,586)	(96,288)
Total debt	6,639,546	7,384,086
Less current portion	(998,591)	(1,106,104)
Long-term portion	5,640,955	6,277,982

As of December 31, 2016, the Company had 13 revolving credit facilities (or the Revolvers) available, which, as at such date, provided for aggregate borrowings of up to $1.6 billion, of which $0.5 billion was undrawn. Interest payments are based on LIBOR plus margins; at December 31, 2016 and December 31, 2015, the margins ranged between 0.45% and 4.00% and between 0.45% and 3.95%, respectively. The aggregate amount available under the Revolvers is scheduled to decrease by $482.4 million (2017), $669.7 million (2018), $43.0 million (2019), $0 million (2020), and $369.1 million (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 68 of the Company’s vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts. Included in other related security are 38.2 million common units in Teekay Offshore, 25.2 million common units in Teekay LNG and 16.8 million Class A common shares in Teekay Tankers, which secure a $150 million credit facility.

The Company’s 8.5% senior unsecured notes are due January 15, 2020 with an original aggregate principal amount of $450 million (or the Original Notes). The Original Notes issued on January 27, 2010 were sold at a price equal to 99.181% of par. In November 2015, the Company issued an aggregate principal amount of $200 million of the Company’s 8.5% senior unsecured notes due on January 15, 2020 (or the Notes) at 99.01% of face value, plus accrued interest from July 15, 2015. The Notes are an additional issuance of the Company’s Original Notes (cumulatively referred to as the 8.5% Notes). The Notes were issued under the same indenture governing the Original Notes, and are fungible with the Original Notes. The discount on the 8.5% Notes is accreted through the maturity date of the notes using the effective interest rate of 8.67% per year.

The Company capitalized aggregate issuance costs of $13.3 million which are amortized to interest expense over the term of the 8.5% Notes. As of December 31, 2016, the unamortized balance of the capitalized issuance cost was $5.7 million which is recorded in long-term debt in the consolidated balance sheet. The 8.5% Notes rank equally in right of payment with all of Teekay’s existing and future senior unsecured debt and senior to any future subordinated debt of Teekay. The 8.5% Notes are not guaranteed by any of Teekay’s subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities of its subsidiaries.

The Company may redeem the 8.5% Notes in whole or in part at any time before their maturity date at a redemption price equal to the greater of (i) 100% of the principal amount of the 8.5% Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 8.5% Notes to be redeemed (excluding accrued interest), discounted to the redemption date on a semi-annual basis, at the treasury yield plus 50 basis points, plus accrued and unpaid interest to the redemption date.

Teekay Offshore and Teekay LNG have a total of NOK 5.4 billion in senior unsecured bonds in the Norwegian bond market at December 31, 2016 that mature through October 2021. As at December 31, 2016, the total carrying amount of the senior unsecured bonds was $628.3 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin, which ranges from 3.70% to 6.00%. The Company entered into cross currency rate swaps to swap all interest and principal payments of the bonds into U.S. Dollars, with the interest payments fixed at rates ranging from 5.92% to 8.84%, and the transfer of principal amount fixed at $844.0 million upon maturity in exchange for NOK 5.4 billion (see Note 14).

In June 2016 Teekay Offshore amended certain of the bond agreements to extend the maturity dates of the senior unsecured bonds. The maturity date for bonds in an aggregate principal amount of NOK 600 million was extended to November 2018, with two interim installments of NOK 180 million. One installment was paid in October 2016 and the other is due in October 2017. The maturity date for bonds in an aggregate principal amount of NOK 800 million was extended to December 2018, with one interim installment of NOK 160 million due in January 2018 and the remaining balance of NOK 640 million repayable in December 2018 at 103% of the principal amount. In October 2016, Teekay LNG issued NOK 900 million unsecured bonds that mature in October 2021 which amount is equivalent to approximately $110 million. In connection with the new bond issuance, Teekay LNG repurchased a portion of its NOK bonds maturing in May 2017, at a price equal to 101.50% of the principal amount of the repurchased bond of NOK 292 million ($36.5 million) for a total purchase price of NOK 296 million.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

As of December 31, 2016, the Company had 23 U.S. Dollar-denominated term loans outstanding, which totaled $3.7 billion in aggregate principal amount (December 31, 2015 – $4.0 billion). Certain of the term loans with a total outstanding principal balance of $58.3 million as at December 31, 2016 (December 31, 2015 – $48.6 million) bear interest at a weighted-average fixed rate of 2.9% (December 31, 2015 – 4.0%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At December 31, 2016 and December 31, 2015, the margins ranged between 0.30% and 3.5%. The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and 20 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 46 (December 31, 2015 – 67) of the Company's vessels, together with certain other security. In addition, at December 31, 2016, all but $56.2 million (December 31, 2015 – $64.6 million) of the outstanding term loans were guaranteed by Teekay or one of its subsidiaries.

During May 2014, Teekay Offshore issued $300 million in five-year senior unsecured bonds that mature in July 2019 in the U.S. bond market. As of December 31, 2016, the carrying amount of the bonds was $300 million. The bonds are listed on the New York Stock Exchange. The interest payments on the bonds are fixed at a rate of 6.0%.

In September 2013 and November 2013, Teekay Offshore issued $174.2 million in aggregate of ten-year senior bonds that mature in December 2023 and that were issued in a U.S. private placement to finance the Bossa Nova Spirit and the Sertanejo Spirit shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security. Teekay Offshore makes semi-annual repayments on the bonds and as of December 31, 2016, the carrying amount of the bonds was $143.3 million.

In February 2015, Teekay Offshore issued $30.0 million in senior bonds that mature in June 2024 in a U.S. private placement. As of December 31, 2016, the carrying amount of the bonds was $23.4 million. The interest payments on the bonds are fixed at a rate of 4.27%. The bonds are collateralized by a first-priority mortgage on the Dampier Spirit FSO unit to which the bonds relate, together with other related security and are guaranteed by two subsidiaries of Teekay Offshore.

Teekay LNG has two Euro-denominated term loans outstanding, which, as at December 31, 2016, totaled 208.9 million Euros ($219.7 million) (December 31, 2015 – 222.7 million Euros ($241.8 million)). Teekay LNG is repaying the loans with funds generated by two Euro-denominated, long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus a margin. At December 31, 2016 and December 31, 2015, the margins ranged between 0.6% and 2.25%. The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023, are collateralized by first-priority mortgages on two of Teekay LNG's vessels, together with certain other security, and are guaranteed by Teekay LNG and one of its subsidiaries.

Both Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Company's NOK-denominated bonds, the Company's Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Company's cross currency swaps, the Company recognized a foreign exchange loss during 2016 of $6.5 million (2015 – $2.2 million loss, 2014 – $13.4 million gain).

The weighted-average effective interest rate on the Company's aggregate long-term debt as at December 31, 2016 was 4.0% (December 31, 2015 – 3.4%). This rate does not include the effect of the Company's interest rate swap agreements (see Note 14).

Teekay Corporation has guaranteed obligations pursuant to credit facilities of Teekay Tankers and Teekay Offshore. As at December 31, 2016, the aggregate outstanding balance on such credit facilities was $150.0 million and $364.0 million, respectively.

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to December 31, 2016, including the impact of the debt refinancing by Teekay Offshore in March 2017, are $1.0 billion (2017), $1.7 billion (2018), $1.0 billion (2019), $1.1 billion (2020), $0.9 billion (2021) and $1.0 billion (thereafter). The Company and its consolidated subsidiaries are actively pursuing financing and refinancing alternatives for amounts due in 2017 (see Note 15).

Among other matters, the Company’s long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and 11 loan agreements require the maintenance of vessel market value to loan ratios. As at December 31, 2016, these ratios ranged from 116.6% to 433.2% compared to their minimum required ratios of 105% to 125%. The vessel values used in these ratios are the appraised values prepared by the Company based on second hand sale and purchase market data. Changes in the LNG/LPG, conventional tanker, FPSO, shuttle tanker, towage and UMS markets could negatively affect the Company’s compliance with these ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at December 31, 2016 and December 31, 2015, this amount was $50 million for the Company, excluding Teekay Offshore and Teekay LNG. Most of the loan agreements also require that the Company maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity of 5.0% of total debt for either Teekay Parent, Teekay Offshore or Teekay Tankers, which as at December 31, 2016, such amounts were $63.8 million, $159.1 million and $46.7 million, respectively. In addition, certain loan agreements require Teekay LNG to maintain a minimum level of tangible net worth and liquidity, and not exceed a maximum level of financial leverage. As at December 31, 2016, the Company was in compliance with all covenants under its credit facilities and other long-term debt. Certain loan agreements that have been entered into by subsidiaries of the Company require these subsidiaries to maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity and/or a minimum net debt to capitalization ratio. The effect of such agreements is that these subsidiaries are restricted in their ability to transfer a certain amount of their net assets to Teekay, either through loans or dividends/distributions. As at December 31, 2016, Teekay Parent's proportionate share of the restricted net assets of the Company's subsidiaries amounted to $209.0 million.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

8. Operating and Direct Financing Leases

Charters-in

As at December 31, 2016, minimum commitments to be incurred by the Company under vessel operating leases by which the Company charters-in vessels were approximately $185.0 million, comprised of $105.7 million (2017), $44.1 million (2018), $25.5 million (2019), $8.3 million (2020), and $1.4 million (2021). The Company recognizes the expense from these charters, which is included in time-charter hire expense, on a straight-line basis over the firm period of the charters.

Charters-out

Time charters and bareboat charters of the Company's vessels to third parties (except as noted below) are accounted for as operating leases. Certain of these charters provide the charterer with the option to acquire the vessel or the option to extend the charter. As at December 31, 2016, minimum scheduled future revenues to be received by the Company on time charters and bareboat charters then in place were approximately $8.0 billion, comprised of $1.3 billion (2017), $1.2 billion (2018), $1.1 billion (2019), $1.0 billion (2020), $0.7 billion (2021) and $2.7 billion (thereafter). The minimum scheduled future revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after December 31, 2016, revenue from unexercised option periods of contracts that existed on December 31, 2016, revenue from vessels in the Company's equity accounted investments, or variable or contingent revenues. In addition, minimum scheduled future operating lease revenues presented in this paragraph have been reduced by estimated off-hire time for any periodic maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

The carrying amount of the vessels accounted for as operating leases at December 31, 2016, was $6.6 billion (2015 - $7.1 billion). The cost and accumulated depreciation of the vessels employed on operating leases as at December 31, 2016 were $9.1 billion (2015 - $9.6 billion) and $2.5 billion (2015 - $2.5 billion), respectively.

Operating Lease Obligations

Teekay Tangguh Joint Venture

As at December 31, 2016, the Teekay BLT Corporation (or the Teekay Tangguh Joint Venture) was a party to operating leases (or Head Leases) whereby it is leasing its two LNG carriers (or the Tangguh LNG Carriers) to a third party company. The Teekay Tangguh Joint Venture is then leasing back the LNG carriers from the same third party company (or the Subleases). Under the terms of these leases, the third party company claims tax depreciation on the capital expenditures it incurred to lease the vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the Teekay Tangguh Joint Venture. Lease payments under the Subleases are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lease payments are increased or decreased under the Sublease to maintain the agreed after-tax margin. The Teekay Tangguh Joint Venture's carrying amounts of this tax indemnification guarantee as at December 31, 2016 and December 31, 2015 were $7.5 million and $8.0 million, respectively, and are included as part of other long-term liabilities in the consolidated balance sheets of the Company. The tax indemnification is for the duration of the lease contract with the third party plus the years it would take for the lease payments to be statute barred, and ends in 2033. Although there is no maximum potential amount of future payments, the Teekay Tangguh Joint Venture may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, the Teekay Tangguh Joint Venture will be required to make termination payments to the third party company sufficient to repay the third party company's investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation. The Head Leases and the Subleases have 20 year terms and are classified as operating leases. The Head Lease and the Sublease for the two Tangguh LNG Carriers commenced in November 2008 and March 2009, respectively. As at December 31, 2016, the total estimated future minimum rental payments to be received and paid under the lease contracts are as follows:

Year	Head Lease Receipts [1] $	Sublease Payments[1][2] $
2017	21,242	24,113
2018	21,242	24,113
2019	21,242	24,113
2020	21,242	24,113
2021	21,242	24,113
Thereafter	154,095	174,959
Total	260,305	295,524

(1) The Head Leases are fixed-rate operating leases while the Subleases have a small variable-rate component. As at December 31, 2016, the Teekay Tangguh Joint Venture had received $250.0 million of aggregate Head Lease receipts and had paid $187.9 million of aggregate Sublease payments. The portion of the Head Lease receipts that has not been recognized into earnings, is deferred and amortized on a straight line basis over the lease terms and, as at December 31, 2016, $3.7 million and $36.7 million of Head Lease receipts had been deferred and included in unearned revenue and other long-term liabilities, respectively, in the Company’s consolidated balance sheets.

(2) The amount of payments under the Subleases is updated annually to reflect any changes in the lease payments due to changes in tax law.

F-28

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Net Investment in Direct Financing Leases
The time charters for the two Tangguh LNG carriers, one FSO unit of Teekay Offshore and certain VOC equipment are accounted for as direct financing leases. In addition, in September and November 2013, Teekay LNG acquired two 155,900-cubic meter LNG carriers (or Awilco LNG Carriers) from Norway-based Awilco LNG ASA (or Awilco) and chartered them back to Awilco on a five- and four-year fixed-rate bareboat charter contract (plus a one-year extension option), respectively, with Awilco holding a fixed-price purchase obligation at the end of the charter. The bareboat charters with Awilco are accounted for as direct financing leases. The purchase price of each vessel was $205.0 million less a $51.0 million upfront prepayment of charter hire by Awilco (inclusive of a $1.0 million upfront fee), which is in addition to the daily bareboat charter rate. The following table lists the components of the net investments in direct financing leases for the five vessels and VOC equipment:

	December 31, 2016 $	December 31, 2015 $
Total minimum lease payments to be received	777,334	855,655
Estimated unguaranteed residual value of leased properties	203,465	203,465
Initial direct costs and other	393	428
Less unearned revenue	(320,598)	(375,419)
Total	660,594	684,129
Less current portion	(154,759)	(26,542)
Long-term portion	505,835	657,587

As at December 31, 2016, minimum lease payments to be received by the Company in each of the next five years following 2016 were $206.2 million (2017), $175.0 million (2018), $40.4 million (2019), $40.4 million (2020), $40.4 million (2021) and $1.9 million (thereafter). The FSO contract is scheduled to expire in 2017, the LNG time charters are both scheduled to expire in 2029 and the two LNG carriers under the Awilco LNG carrier leases expire in 2017 and 2018.

9. Capital Lease Obligations

Capital Lease Obligations

	December 31, 2016 $	December 31, 2015 $
LNG Carriers	338,257	—
Suezmax Tankers	54,582	59,127
Less current portion	(40,353)	(4,546)
Long-term obligations under capital lease	352,486	54,581

LNG Carriers. As at December 31, 2016, Teekay LNG was a party to capital leases on two LNG carriers, the Creole Spirit and Oak Spirit. Upon delivery of the Creole Spirit in February 2016 and the Oak Spirit in July 2016, Teekay LNG sold these vessels to a third party and leased them back under 10-year bareboat charter contracts ending in 2026. The bareboat charter contracts are fixed-rate capital leases with a fixed-price purchase obligation at the end of the lease terms. At inception of these leases, the weighted-average interest rate implicit in these leases was 5.5%. Teekay LNG guarantees the obligations of the bareboat charter contracts. In addition, the guarantee agreements require Teekay LNG to maintain minimum levels of tangible net worth and aggregate liquidity, and not to exceed a maximum amount of leverage. In December 2016, Teekay LNG entered into a $682.8 million sale-leaseback agreement with ICBC Leasing for four of Teekay LNG’s LNG carrier newbuildings equipped with MEGI twin engines, delivering in

2017 and 2018, and at such dates, ICBC Financial Leasing Co., Ltd. will take delivery and charter each respective vessel back to Teekay LNG.

As at December 31, 2016, the remaining commitments under the two capital leases for the Creole Spirit and the Oak Spirit, including the related purchase obligations, approximated $478.1 million, including imputed interest of $139.8 million, repayable from 2017 through 2026, as indicated below:

Year	Commitment
2017	$ 30,065
2018	$ 30,065
2019	$ 30,065
2020	$ 30,147
2021	$ 30,065
Thereafter	$ 327,686

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Suezmax Tankers. As at December 31, 2016, Teekay LNG was a party to capital leases on two Suezmax tankers. Under these capital leases, the owner has the option to require Teekay LNG to purchase the two vessels. The charterer, who is also the owner, also has the option to cancel the charter contracts and the cancellation options are first exercisable in October 2017 and July 2018, respectively.

The amounts in the table below assume the owner will not exercise its options to require Teekay LNG to purchase either of the two remaining vessels, but rather it assumes the owner will cancel the charter contracts when the cancellation right is first exercisable (in October 2017 and July 2018, respectively), and sell the vessels to a third party, upon which the lease obligations will be extinguished. At the inception of these leases, the weighted-average interest rate implicit in these leases was 5.5%. These capital leases are variable-rate capital leases. However, any change in the lease payments resulting from changes in interest rates is offset by a corresponding change in the charter hire payments received by Teekay LNG.

As at December 31, 2016, the remaining commitments under the two capital leases for Suezmax Tankers, including the related purchase obligations, approximated $58.2 million, including imputed interest of $3.6 million, repayable from 2017 through 2018, as indicated below:

Year	Commitment
2017	$ 30,953
2018	$ 27,296

The Company’s capital leases do not contain financial or restrictive covenants other than those relating to operation and maintenance of the vessels.

10. Fair Value Measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instruments and other non-financial assets.

Cash and cash equivalents, restricted cash and marketable securities - The fair value of the Company’s cash and cash equivalents restricted cash, and marketable securities approximates their carrying amounts reported in the accompanying consolidated balance sheets.

Vessels and equipment and assets held for sale – The estimated fair value of the Company’s vessels and equipment and assets held for sale was determined based on discounted cash flows or appraised values. In cases where an active second hand sale and purchase market does not exist, the Company uses a discounted cash flow approach to estimate the fair value of an impaired vessel. In cases where an active second hand sale and purchase market exists, an appraised value is generally the amount the Company would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Company. Other assets held for sale include working capital balances and the fair value of such amounts generally approximate their carrying value.

Long-term investments - The estimated fair value of the Company’s long-term investments was determined based on discounted cash flows or appraised values. As an active second hand sale and purchase market exists, the appraised value is the amount the Company would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Company. Long-term investments include variable-rate long-term debt balances and the fair value of such amounts is estimated using discounted cash flow analyses, based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Company. Long-term investments also include working capital balances and the fair value of such amounts generally approximate their carrying value.

Loans to equity-accounted investees and joint venture partners – The fair value of the Company’s loans to joint ventures and joint venture partners approximates their carrying amounts reported in the accompanying consolidated balance sheets.

Long-term receivable included in accounts receivable and other assets – The fair values of the Company’s long-term loan receivable is estimated using discounted cash flow analysis based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the counterparty.

Long-term debt – The fair value of the Company’s fixed-rate and variable-rate long-term debt is either based on quoted market prices or estimated using discounted cash flow analyses, based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Company. Alternatively, if the fixed-rate and variable-rate long-term debt is held for sale the fair value is based on the estimated sales price.

Derivative instruments – The fair value of the Company’s derivative instruments is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account, as applicable, fixed interest rates on interest rate swaps, current interest rates, foreign exchange rates, and the current credit worthiness of both the Company and the derivative counterparties. The estimated amount is the present value of future cash flows. The Company transacts all of its derivative instruments through investment-grade rated financial institutions at the time of the transaction and requires no collateral from these institutions. Given the current volatility in the credit markets, it is reasonably possible that the amounts recorded as derivative assets and liabilities could vary by material amounts in the near term.

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

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Level 1.Observable inputs such as quoted prices in active markets;
Level 2.Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3.Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis, as well as the estimated fair value of the Company's financial instruments that are not accounted for at a fair value on a recurring basis.

		December 31, 2016		December 31, 2015	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $
Recurring					
Cash and cash equivalents, restricted cash, and marketable securities	Level 1	805,567	805,567	855,107	855,107
Derivative instruments (note 14)					
Interest rate swap agreements - assets [1]	Level 2	7,943	7,943	6,136	6,136
Interest rate swap agreements - liabilities [1]	Level 2	(302,935)	(302,935)	(370,952)	(370,952)
Cross currency interest swap agreement [1]	Level 2	(237,165)	(237,165)	(312,110)	(312,110)
Foreign currency contracts	Level 2	(2,993)	(2,993)	(18,826)	(18,826)
Stock purchase warrants (note 14)	Level 3	575	575	10,328	10,328
Time-charter swap agreement	Level 3	208	208	—	—
Logitel contingent consideration (see below)	Level 3	—	—	(14,830)	(14,830)
Non-recurring					
Vessels and equipment (note 17c)	Level 2	11,300	11,300	100,600	100,600
Vessels held for sale (note 17c)	Level 2	61,282	61,282	55,450	55,450
Long-term investments (note 13)	Level 2	6,000	6,000	25,000	25,000
Other					
Loans to equity-accounted investees and joint venture partners - Current	(2)	11,821	(2)	7,127	(2)
Loans to equity-accounted investees and joint venture partners - Long-term	(2)	292,209	(2)	184,390	(2)
Long-term receivable included in accounts receivable and other assets [3]	Level 3	10,985	10,944	16,453	16,427
Long-term debt - public (note 7)	Level 1	(1,503,472)	(1,409,996)	(1,493,915)	(1,161,729)
Long-term debt - non-public (note 7)	Level 2	(5,136,074)	(5,009,900)	(5,890,171)	(5,881,483)

(1) The fair value of the Company's interest rate swap agreements at December 31, 2016 includes $15.8 million (December 31, 2015 - $21.7 million) accrued interest expense which is recorded in accrued liabilities on the consolidated balance sheets.

(2) In the consolidated financial statements, the Company's loans to and equity investments in equity-accounted investees constitute the aggregate carrying value of the Company's interests in entities accounted for by the equity method. The fair value of the individual components of such aggregate interests is not determinable.

(3)

As at December 31, 2016, the estimated fair value of the non-interest bearing receivable is based on the remaining future fixed payments of $10.9 million to be received from Royal Dutch Shell Plc (or Shell) (formerly BG International Limited (or BG)), as part of the ship construction support agreement, as well as an estimated discount rate of 8.0%. As there is no market rate for the equivalent of an unsecured non-interest bearing receivable from BG, the discount rate was based on unsecured debt instruments of similar maturity held, adjusted for a liquidity premium. A higher or lower discount rate would result in a lower or higher fair value asset.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Time-charter swap agreement - Changes in fair value during the years ended December 31, 2016 and 2015 for Teekay Tankers' time-charter swap agreement, which is described in Note 14 below and is measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
	$	$
Fair value asset - beginning of the year	—	—
Settlements	(2,154)	—
Realized and unrealized gain	2,362	—
Fair value asset - at the end of the year	208	—

The estimated fair value of the time-charter swap agreement is based in part upon the Company's projection of future Aframax spot market tanker rates, which has been derived from current Aframax spot market tanker rates and estimated future rates, as well as an estimated discount rate. The estimated fair value of the time-charter swap agreement as of December 31, 2016 is based upon an estimated average daily tanker rate of approximately $18,000 over the remaining duration of the contract. In developing and evaluating this estimate, the Company considers the current tanker market fundamentals as well as the short and long-term outlook. A higher or lower average daily tanker rate would result in a higher or lower fair value liability or a lower or higher fair value asset. A higher or lower discount rate would result in a lower or higher fair value asset or liability.

Stock purchase warrants – During January 2014, the Company received from TIL stock purchase warrants entitling it to purchase up to 1.5 million shares of the common stock of TIL (see Note 14). The estimated fair value of the stock purchase warrants was determined using a Monte-Carlo simulation and is based, in part, on the historical price of common shares of TIL, the risk-free rate, vesting conditions and the historical volatility of comparable companies. The estimated fair value of these stock purchase warrants as of December 31, 2016 was based on the historical volatility of the comparable companies of 47.8%. A higher or lower volatility would result in a higher or lower fair value of this derivative asset.

Changes in fair value during the years ended December 31, 2016 and 2015 for one of the Company's derivative instruments, the TIL stock purchase warrants, which are described above and are measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Year Ended December 31,	
	2016	2015
	$	$
Fair value at the beginning of the year	10,328	9,314
Unrealized (loss) gain included in earnings	(9,753)	1,014
Fair value at the end of the year	575	10,328

Contingent consideration liability – In August 2014, Teekay Offshore acquired 100% of the outstanding shares of Logitel, a Norway-based company focused on high-end UMS, from CeFront Technology AS (or CeFront) for $4.0 million, which was paid in cash at closing, plus a commitment to pay an additional amount of up to $27.6 million, depending upon certain performance criteria.

During the second quarter of 2016, Teekay Offshore canceled the UMS construction contracts for its two remaining UMS newbuildings. This is expected to eliminate any future purchase price contingent consideration payments. Consequently, the contingent liability was reversed in the second quarter of 2016. The gain associated with this reversal is included in Other (loss) income on the Company's consolidated statement of income for the year ended December 31, 2016.

Changes in the estimated fair value of Teekay Offshore's contingent consideration liability relating to the acquisition of Logitel, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), during the years ended December 31, 2016 and 2015 is as follows:

	Year Ended December 31,	
	2016	2015
	$	$
Balance at beginning of year	(14,830)	(21,448)
Adjustment to liability	—	2,569
Settlement of liability	—	3,540
Gain included in Other (loss) income - net (note 13)	14,830	509
Balance at end of year	—	(14,830)

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

11. Capital Stock

The authorized capital stock of Teekay at December 31, 2016 and 2015, was 25,000,000 shares of Preferred Stock, with a par value of $1 per share, and 725,000,000 shares of Common Stock, with a par value of $0.001 per share. As at December 31, 2016, 86,149,975 shares of Common Stock (2015 – 72,711,371) were issued and outstanding and no shares of Preferred Stock issued.

During 2016, Teekay issued 0.1 million shares of common stock upon the exercise or issuance of stock options, restricted stock units and restricted stock awards and issued approximately 12.0 million shares of common stock in a private placement for net proceeds of approximately $96.2 million.

In 2016, Teekay implemented a continuous offering program (or COP) under which Teekay may issue new common stock, at market prices up to a maximum aggregate amount of $50.0 million. During 2016, Teekay sold an aggregate of 1.3 million shares of common stock under the COP, generating net proceeds of approximately $9.3 million (net of approximately $0.4 million of offering costs). Teekay used the net proceeds from the issuance of these shares of common stock for general corporate purposes.

During 2015, the Company issued 0.2 million common shares upon the exercise of stock options and restricted stock units and awards, and had no share repurchases of common shares. During 2014, the Company issued 1.8 million common shares upon the exercise of stock options and restricted stock units and awards, and had no share repurchases of common shares.

Dividends may be declared and paid out of surplus, but if there is no surplus, dividends may be declared or paid out of the net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Surplus is the excess of the net assets of the Company over the aggregated par value of the issued shares of the Teekay. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock are entitled to share equally in any dividends that the Board of Directors may declare from time to time out of funds legally available for dividends.

During 2008, Teekay announced that its Board of Directors had authorized the repurchase of up to $200 million of shares of its Common Stock in the open market, subject to cancellation upon approval by the Board of Directors. As at December 31, 2016, Teekay had repurchased approximately 5.2 million shares of Common Stock for $162.3 million pursuant to such authorization. The total remaining share repurchase authorization at December 31, 2016, was $37.7 million.

On July 2, 2010, the Company amended and restated its Shareholder Rights Agreement (the Rights Agreement), which was originally adopted by the Board of Directors in September 2000. In September 2000, the Board of Directors declared a dividend of one common share purchase right (or a Right) for each outstanding share of the Company’s common stock. These Rights continue to remain outstanding and will not be exercisable and will trade with the shares of the Company’s common stock until after such time, if any, as a person or group becomes an “acquiring person” as set forth in the amended Rights Agreement. A person or group will be deemed to be an “acquiring person,” and the Rights generally will become exercisable, if a person or group acquires 20% or more of the Company’s common stock, or if a person or group commences a tender offer that could result in that person or group owning more than 20% of the Company’s common stock, subject to certain higher thresholds for existing shareholders that owned in excess of 15% of the Company’s common stock when the Rights Agreement was amended. Once exercisable, each Right held by a person other than the “acquiring person” would entitle the holder to purchase, at the then-current exercise price, a number of shares of common stock of the Company having a value of twice the exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction after any such event, each holder of a Right would then be entitled to purchase, at the then-current exercise price, shares of the acquiring company's common stock having a value of twice the exercise price of the Right. The amended Rights Agreement will expire on July 1, 2020, unless the expiry date is extended or the Rights are earlier redeemed or exchanged by the Company.

Stock-based compensation

In March 2013, the Company adopted the 2013 Equity Incentive Plan (or the 2013 Plan) and suspended the 1995 Stock Option Plan and the 2003 Equity Incentive Plan (collectively referred to as the Plans). As at December 31, 2016, the Company had reserved 4,780,371 (2015 - 4,527,282) shares of Common Stock pursuant to the 2013 Plan, for issuance upon the exercise of options or equity awards granted or to be granted.

During the years ended December 31, 2016, 2015 and 2014, the Company granted options under the 2013 Plan to acquire up to 916,015, 265,135 and 15,243 shares of Common Stock, respectively, to certain eligible officers, employees and directors of the Company. The options under the Plans have ten-year terms and vest equally over three years from the grant date. All options outstanding as of December 31, 2016, expire between March 13, 2017 and March 7, 2026, ten years after the date of each respective grant.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

A summary of the Company's stock option activity and related information for the years ended December 31, 2016, 2015, and 2014, are as follows:

	December 31, 2016		December 31, 2015		December 31, 2014	
	Options (000's) #	Weighted-Average Exercise Price $	Options (000's) #	Weighted-Average Exercise Price $	Options (000's) #	Weighted-Average Exercise Price $
Outstanding - beginning of year	2,800	36.84	2,710	36.61	4,237	36.33
Granted	916	9.44	265	43.99	15	56.76
Exercised	—	—	(36)	33.79	(1,528)	36.10
Forfeited / expired	(349)	38.97	(139)	46.80	(14)	28.51
Outstanding - end of year	3,367	29.16	2,800	36.84	2,710	36.61
Exercisable - end of year	2,271	35.89	2,500	36.03	2,508	37.03

A summary of the Company's non-vested stock option activity and related information for the years ended December 31, 2016, 2015 and 2014, are as follows:

	December 31, 2016		December 31, 2015		December 31, 2014	
	Options (000's) #	Weighted-Average Grant Date Fair Value $	Options (000's) #	Weighted-Average Grant Date Fair Value $	Options (000's) #	Weighted-Average Grant Date Fair Value $
Outstanding non-vested stock options - beginning of year	300	8.09	202	9.37	389	9.24
Granted	916	3.60	265	7.74	15	11.50
Vested	(118)	8.48	(167)	9.07	(188)	9.30
Forfeited	(2)	3.60	—	—	(14)	9.01
Outstanding non-vested stock options - end of year	1,096	4.30	300	8.09	202	9.37

The weighted average grant date fair value for non-vested options forfeited in 2016 was $0.0 million (2015 - $0.0 million, 2014 - $0.1 million).

As of December 31, 2016, there was $1.2 million of total unrecognized compensation cost related to non-vested stock options granted under the Plans. Recognition of this compensation is expected to be $0.6 million (2017), $0.5 million (2018) and $0.1 million (2019). During the years ended December 31, 2016, 2015, and 2014, the Company recognized $1.5 million, $1.7 million and $1.0 million, respectively, of compensation cost relating to stock options granted under the Plans. There were no options in-the-money during 2016. The intrinsic value of options exercised during 2015 was $0.5 million and during 2014 was $22.6 million.

As at December 31, 2016 and 2015, there was no intrinsic value in the outstanding and exercisable stock options. As at December 31, 2016, the weighted-average remaining life of options vested and expected to vest was 4.5 years (2015 – 3.4 years).

Further details regarding the Company's outstanding and exercisable stock options at December 31, 2016 are as follows:

	Outstanding Options	Exercisable Options
Range of Exercise Prices		

	Options (000's) #	Weighted- Average Remaining Life (Years)	Weighted- Average Exercise Price $	Options (000's) #	Weighted- Average Remaining Life (Years)	Weighted- Average Exercise Price $
\$5.00 – \$9.99	914	9.2	9.44	—	0	—
\$10.00 – \$19.99	188	2.2	11.84	188	2.2	11.84
\$20.00 – \$24.99	293	3.2	24.42	293	3.2	24.42
\$25.00 – \$29.99	364	5.2	27.69	364	5.2	27.69
\$30.00 – \$34.99	117	5.3	34.44	117	5.3	34.44
\$35.00 – \$39.99	25	1.6	39.99	25	1.6	39.99
\$40.00 – \$44.99	1,029	3.0	41.33	852	1.9	40.78
\$50.00 – \$54.99	422	0.2	51.40	422	0.2	51.40
\$55.00 – \$59.99	15	7.2	56.76	10	7.2	56.76
	3,367	4.61	29.16	2,271	2.49	35.89

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

The weighted-average grant-date fair value of options granted during 2016 was $3.60 per option (2015 - $7.74, 2014 - $11.50). The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the options granted: expected volatility of 55.1% in 2016, 31.1% in 2015 and 34.7% in 2014; expected life of 6 years in 2016 and 5 years in 2015 and 2014; dividend yield of 3.2% in 2016 and 4.4% in 2015 and 2014; risk-free interest rate of 1.3% in 2016, 1.4% in 2015, and 1.6% in 2014; and estimated forfeiture rate of 7% in 2016, 8% in 2015 and 12% 2014. The expected life of the options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

The Company grants restricted stock units and performance share units to certain eligible officers and employees of the Company. Each restricted stock unit and performance share unit is equivalent in value to one share of the Company’s common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date and the performance share units vest two or three years from the grant date. Upon vesting, the value of the restricted stock units, restricted stock awards and performance shares are paid to each grantee in the form of shares or cash. The number of performance share units that vest will range from zero to a multiple of the original number granted, based on certain performance and market conditions.

During 2016, the Company granted 238,609 restricted stock units with a fair value of $2.3 million and 311,691 performance share units with a fair value of $3.6 million, based on the quoted market price and a Monte Carlo valuation model, to certain of the Company’s employees. During 2016, a total of 98,844 restricted stock units with a market value of $4.3 million vested and that amount, net of withholding taxes, was paid to grantees by issuing 59,518 shares of common stock. During 2015, the Company granted 63,912 restricted stock units with a fair value of $2.8 million and 61,774 performance share units with a fair value of $3.4 million, based on the quoted market price and a Monte Carlo valuation model, to certain of the Company’s employees. During 2015, a total of 101,419 restricted stock units with a market value of $4.3 million vested and that amount, net of withholding taxes, was paid to grantees by issuing 98,381 shares of common stock. During 2014, the Company granted 81,388 restricted stock units with a fair value of $4.6 million and 50,689 performance share units with a fair value of $3.4 million, based on the quoted market price and a Monte Carlo valuation model, to certain of the Company’s employees. During 2014, a total of 261,911 restricted stock units with a market value of $8.5 million vested and that amount, net of withholding taxes, was paid to grantees by issuing 149,082 shares of common stock. For the year ended December 31, 2016, the Company recorded an expense of $4.2 million (2015 - $4.5 million, 2014 - $7.5 million) related to the restricted stock units and performance share units.

During 2016, the Company also granted 67,000 (2015 – 22,502 and 2014 – 18,230) shares as restricted stock awards with a fair value of $0.6 million (2015 – $1.0 million and 2014 – $1.0 million), based on the quoted market price, to certain of the Company’s directors. The shares of restricted stock are issued when granted.

Share-based Compensation of Subsidiaries

During the years ended December 31, 2016, 2015 and 2014, 76,084, 14,603 and 9,482 common units of Teekay Offshore, 32,723, 10,447 and 9,521 common units of Teekay LNG and 9,358, 51,948 and 17,073 shares of Class A common stock of Teekay Tankers, with aggregate values of $0.7 million, $1.0 million, and $0.8 million, respectively, were granted and issued to the non-management directors of the general partners of Teekay Offshore and Teekay LNG and the non-management directors of Teekay Tankers as part of their annual compensation for 2016, 2015 and 2014.

Teekay Offshore, Teekay LNG and Teekay Tankers grant equity-based compensation awards as incentive-based compensation to certain employees of Teekay's subsidiaries that provide services to Teekay Offshore, Teekay LNG and Teekay Tankers. During March 2016, 2015 and 2014, Teekay Offshore and Teekay LNG granted phantom unit awards and Teekay Tankers granted restricted stock-based compensation awards with respect to 601,368, 102,843 and 67,569 units of Teekay Offshore, 132,582, 32,054 and 31,961 units of Teekay LNG and 279,980, 192,387 and 586,014 Class A common shares of Teekay Tankers, respectively, with aggregate grant date fair values of $4.9 million, $4.2 million and $5.7 million, respectively, based on Teekay Offshore, Teekay LNG and Teekay Tankers' closing unit or stock prices on the grant dates. Each phantom unit or restricted stock unit is equal in value to one of Teekay Offshore's, Teekay LNG's or Teekay Tankers' common units or common shares plus reinvested distributions or dividends from the grant date to the vesting date. The awards vest equally over three years from the grant date. Any portion of an award that is not vested on the date of a recipient's termination of service is cancelled, unless their termination arises as a result of the recipient's retirement, in which case the award will continue to vest in accordance with the vesting schedule. Upon vesting, the awards are paid to a substantial majority of the grantees in the form of common units or common shares, net of withholding tax.

During March 2016, Teekay Tankers granted 216,043 stock options with an exercise price of $3.74 per share that have a ten-year term and vest equally over three years from the grant date to an officer of Teekay Tankers. During March 2015, Teekay Tankers granted 58,434 stock options with an exercise price of $5.39 per share that have a ten-year term and vest equally over three years from the grant date to an officer of Teekay Tankers. During June 2014, Teekay Tankers granted 110,829 stock options with an exercise price of $4.25 per share that have a ten-year term and vest equally over three years from the grant date to an officer of Teekay Tankers. During March 2016, Teekay Tankers granted 284,693 stock options with an exercise price of $3.74 per share that have a ten-year term and vest immediately to non-management directors of Teekay Tankers. During March 2014, Teekay Tankers granted 152,346 stock options with an exercise price of $4.10 per share that have a ten-year term and vest immediately to non-management directors of Teekay Tankers.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

12. Related Party Transactions

As at December 31, 2016, Resolute Investments, Ltd. (or Resolute) owned 37.1% (2015 – 39.1%, 2014 – 34.8%) of the Company’s outstanding Common Stock. One of the Company’s directors, Thomas Kuo-Yuen Hsu, is the President and a director of Resolute. Another of the Company’s directors, Axel Karlshoej, is among the directors of Path Spirit Limited, which is the trust protector for the trust that indirectly owns all of Resolute’s outstanding equity. The Company’s Chairman, C. Sean Day, is engaged as a consultant to Kattegat Limited, the parent company of Resolute, to oversee its investments, including those in the Teekay group of companies. Another of the Company’s directors, Bjorn Moller, is a director of Kattegat Limited.

13. Other (Loss) Income

	Year Ended December 31, 2016 $	Year Ended December 31, 2015 $	Year Ended December 31, 2014 $
Write-off of contingent consideration (note 15d)	36,630	—	—
Accrual of contingent liability (note 15d)	(61,862)	—	—
Write-down of cost-accounted investment [1]	(19,000)	—	—
TIL stock purchase warrants received (note 14)	—	—	6,839
Miscellaneous income (loss)	5,219	1,566	(292)
Loss on bond repurchases	—	—	(7,699)
Other (loss) income	(39,013)	1,566	(1,152)

(1) The company holds investments at cost. During the year ended December 31, 2016 the Company recorded a write-down of these investments of $19.0 million.

14. Derivative Instruments and Hedging Activities

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

Foreign Exchange Risk

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

As at December 31, 2016, the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency	Average Forward Rate [1]	Fair Value / Carrying Amount Of Asset (Liability) $	Expected Maturity 2017 $	2018 $
Euro	13,750	0.92	(304)	14,879	—
Norwegian Kroner	610,000	8.31	(2,689)	60,677	12,719
			(2,993)	75,556	12,719

(1)Average contractual exchange rate represents the contracted amount of foreign currency one U.S. Dollar will buy.

The Company enters into cross currency swaps and pursuant to these swaps the Company receives the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal at maturity of the Company's NOK-denominated bonds due in 2017 through 2021. In addition, the cross currency swaps economically hedge the interest rate exposure on the NOK bonds due in 2017 through 2021. The Company has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK-denominated bonds due in 2017 through 2021. As at December 31, 2016, the Company was committed to the following cross currency swaps:

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Notional Amount NOK	Notional Amount USD	Floating Rate Receivable Reference Rate	Floating Rate Receivable Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Asset / (Liability)	Remaining Term (years)
408,500	72,946	NIBOR	5.25 %	6.88 %	(26,417)	0.3
420,000 (1) (2)	70,946	NIBOR	5.75 %	8.84 %	(25,821)	1.9
800,000 (1) (3)	143,536	NIBOR	5.75 %	7.58 %	(56,272)	2.0
900,000	110,400	NIBOR	6.00 %	7.72 %	(3,814)	4.8
900,000	150,000	NIBOR	4.35 %	6.43 %	(49,655)	1.7
1,000,000	162,200	NIBOR	4.25 %	7.45 %	(55,286)	2.1
1,000,000	134,000	NIBOR	3.70 %	5.92 %	(19,900)	3.4
					(237,165)	

(1) Notional amount reduces equally with NOK bond repayments (see Note 7).
(2) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 7.2 million for $1.2 million (see Note 7).
(3) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 19.2 million for $3.4 million (see Note 7).

Interest Rate Risk

The Company enters into interest rate swap agreements, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. The Company designates certain of its interest rate swap agreements as cash flow hedges for accounting purposes.

As at December 31, 2016, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt and EURIBOR-based debt, whereby certain of the Company's floating-rate debt obligations were swapped with fixed-rate obligations:

	Interest Rate Index	Principal Amount $	Fair Value / Carrying Amount of Asset / (Liability) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) (1)
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps	LIBOR	2,974,274	(243,261)	5.4	3.3
U.S. Dollar-denominated interest rate swaps (2)	LIBOR	517,629	(16,489)	4.2	3.0
U.S. Dollar-denominated interest rate swaption (3)	LIBOR	155,000	(1,525)	0.3	2.2
U.S. Dollar-denominated interest rate swaption (3)	LIBOR	155,000	31	0.3	3.3
U.S. Dollar-denominated interest rate swaption (4)	LIBOR	160,000	(1,457)	1.1	2.0
U.S. Dollar-denominated interest rate swaption (4)	LIBOR	160,000	1,140	1.1	3.1
U.S. Dollar-denominated interest rate swaption (5)	LIBOR	160,000	(1,248)	1.5	1.8
U.S. Dollar-denominated interest rate swaption (5)	LIBOR	160,000	2,112	1.5	2.9
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps (6) (7)	EURIBOR	219,733	(34,295)	4.0	3.1

(294,992)

(1) Excludes the margins the Company pays on its variable-rate debt, which, as of December 31, 2016, ranged from 0.3% to 4.0%.

(2) Inception dates range from September 2017 to April 2018. Interest rate swaps with an aggregate principal amount of $320 million are being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2017 to 2024. These interest rate swaps are subject to mandatory early termination in 2017 and 2018 whereby the swaps will be settled based on their fair value at that time.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

(3) During June 2015, as part of its hedging program, Teekay LNG entered into interest rate swaption agreements whereby it has a one-time option in April 2017 to enter into an interest rate swap at a fixed rate of 3.34% with a third party, and the third party has a one-time option in April 2017 to require Teekay LNG to enter into an interest swap at a fixed rate of 2.15%. If Teekay LNG or the third party exercises its option, there will be a cash settlement in April 2017 for the fair value of the interest rate swap, in lieu of taking delivery of the actual interest rate swap.

(4) During August 2015, as part of its hedging program, Teekay LNG entered into interest rate swaption agreements whereby it has a one-time option in January 2018 to enter into an interest rate swap at a fixed rate of 3.10% with a third party, and the third party has a one-time option in January 2018 to require Teekay LNG to enter into an interest swap at a fixed rate of 1.97%. If Teekay LNG or the third party exercises its option, there will be a cash settlement in January 2018 for the fair value of the interest rate swap, in lieu of taking delivery of the actual interest rate swap.

(5) During October 2015, as part of its hedging program, Teekay LNG entered into interest rate swaption agreements whereby it has a one-time option in July 2018 to enter into an interest rate swap at a fixed rate of 2.935% with a third party, and the third party has a one-time option in July 2018 to require Teekay LNG to enter into an interest swap at a fixed rate of 1.83%. If Teekay LNG or the third party exercises its option, there will be a cash settlement in July 2018 for the fair value of the interest rate swap, in lieu of taking delivery of the actual interest rate swap.

(6) Principal amount reduces monthly to 70.1 million Euros ($73.7 million) by the maturity dates of the swap agreements.

(7) Principal amount is the U.S. Dollar equivalent of 208.9 million Euros.

Teekay Corporation has guaranteed obligations, up to a maximum of $387.0 million, pursuant to certain interest rate swaps and cross currency swaps of Teekay Offshore. As at December 31, 2016, the estimated fair value of these interest rate swaps and cross currency swaps, capped at the maximum guarantee obligation, was a liability of $241.3 million.

Stock Purchase Warrants

In January 2014, Teekay and Teekay Tankers formed TIL. Teekay and Teekay Tankers purchased an aggregate of 5.0 million shares of TIL's common stock, representing an initial 20% interest in TIL, as part of a $250 million private placement by TIL, which represents a total investment by Teekay and Teekay Tankers of $50.0 million. In addition, Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase an aggregate of up to 1.5 million shares of common stock of TIL at a fixed price of $10 per share. Alternatively, if the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, Teekay and Teekay Tankers may also exercise their stock purchase warrants at 61.67 NOK per share. The estimated fair value of the warrants on issuance was $6.8 million and was included in other (loss) income in the consolidated statements of income. The stock purchase warrants vest in four equally sized tranches and as at December 31, 2016, two tranches had vested. If the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, each tranche will vest and become exercisable when and if the fair market value of a share of TIL's common stock equals or exceeds 77.08 NOK, 92.50 NOK, 107.91 NOK and 123.33 NOK, respectively, for such tranche for any ten consecutive trading days. The stock purchase warrants expire on January 23, 2019. The fair value of the stock purchase warrants at December 31, 2016 was $0.6 million. The Company reports the unrealized gains from the stock purchase warrants in realized and unrealized losses on non-designated derivatives in the consolidated statements of income.

Time-charter Swap

Effective June 1, 2016, Teekay Tankers entered into a time-charter swap agreement for 55% of two Aframax-equivalent vessels. Under such agreement, Teekay Tankers will receive $27,776 per day, net of a 1.25% brokerage commission, and pay 55% of the net revenue distribution of two Aframax-equivalent vessels employed in Teekay Tankers' 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. The purpose of the agreement is to reduce Teekay Tankers' exposure to spot tanker market rate variability for certain of its vessels that are employed in the Aframax revenue sharing pooling arrangement. Teekay Tankers has not designated, for accounting purposes, the time-charter swap as a cash flow hedge. The fair value of the time-charter swap agreement at December 31, 2016 was an asset of $0.2 million.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

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

	Prepaid Expenses and Other	Other Non-Current Assets	Accrued Liabilities	Current Portion of Derivative Liabilities	Derivative Liabilities
As at December 31, 2016					
Derivatives designated as a cash flow hedge:					
Interest rate swap agreements	—	1,340	(363)	(1,033)	(52)
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	119	—	—	(2,601)	(511)
Interest rate swap agreements	212	9,841	(11,979)	(59,055)	(233,903)
Cross currency swap agreements	—	—	(3,464)	(53,124)	(180,577)
Stock purchase warrants	—	575	—	—	—
Time-charter swap agreement	875	—	(667)	—	—
	1,206	11,756	(16,473)	(115,813)	(415,043)
As at December 31, 2015					
Derivatives designated as a cash flow hedge:					
Interest rate swap agreements	—	—	—	(338)	(777)
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	80	—	—	(16,372)	(2,534)
Interest rate swap agreements	—	7,516	(18,348)	(198,196)	(154,673)
Cross currency swap agreements	—	—	(3,377)	(52,633)	(256,100)
Stock purchase warrants	—	10,328	—	—	—
	80	17,844	(21,725)	(267,539)	(414,084)

As at December 31, 2016, the Company had multiple interest rate swaps, cross currency swaps and foreign currency forward contracts with the same counterparty that are subject to the same master agreements. Each of these master agreements provides for the net settlement of all derivatives subject to that master agreement through a single payment in the event of default or termination of any one derivative. The fair value of these derivatives is presented on a gross basis in the Company's consolidated balance sheets. As at December 31, 2016, these derivatives had an aggregate fair value asset amount of $7.2 million (December 31, 2015 - $nil) and an aggregate fair value liability amount of $398.7 million (December 31, 2015 - $588.1 million). As at December 31, 2016, the Company had $68.0 million on deposit with the relevant counterparties as security for swap liabilities under certain master agreements (December 31, 2015 - $105.3 million). The deposit is presented in restricted cash on the consolidated balance sheets.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

For the periods indicated, the following table presents the effective portion of gains (losses) on interest rate swap agreements designated and qualifying as cash flow hedges:

Year Ended December 31, 2016

Effective Portion Recognized in AOCI (1)	Effective Portion Reclassified from AOCI (2)	Ineffective Portion	
$	$	$	
691	(68)	682	Interest expense
691	(68)	682	

Year Ended December 31, 2015

Effective Portion Recognized in AOCI (1)	Effective Portion Reclassified from AOCI (2)	Ineffective Portion	
$	$	$	
(65)	—	(1,050)	Interest expense
(65)	—	(1,050)	

(1) Recognized in accumulated other comprehensive loss (or AOCI).
(2) Recorded in AOCI during the term of the hedging relationship and reclassified to earnings.
(3) Recognized in the ineffective portion of gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

As at December 31, 2016, the Company estimated, based on then current interest rates, that it would reclassify approximately $0.7 million of net losses on interest rate swaps from accumulated other comprehensive loss to earnings during the next 12 months.

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

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	$	$	$
Realized (losses) gains relating to:			
Interest rate swap agreements	(87,320)	(108,036)	(125,424)
Interest rate swap agreement terminations	(8,140)	(10,876)	(1,319)
Foreign currency forward contracts	(11,186)	(21,607)	(4,436)
Time charter swap agreement	2,154	—	—
	(104,492)	(140,519)	(131,179)

Unrealized gains (losses) relating to:			
Interest rate swap agreements	62,446	37,723	(86,045)
Foreign currency forward contracts	15,833	(418)	(16,926)
Stock purchase warrants	(9,753)	1,014	2,475
Time-charter swap agreement	875	—	—
	69,401	38,319	(100,496)
Total realized and unrealized (losses) gains on derivative instruments	(35,091)	(102,200)	(231,675)

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

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

	Year Ended December 31,		
	2016	2015	2014
	$	$	$
Realized losses on maturity and partial termination of cross currency swap	(41,707)	(36,155)	—
Realized losses	(38,564)	(18,973)	(3,955)
Unrealized gains (losses)	75,033	(89,178)	(167,334)
Total realized and unrealized losses on cross currency swaps	(5,238)	(144,306)	(171,289)

The Company is exposed to credit loss to the extent the fair value represents an asset in the event of non-performance by the counterparties to the foreign currency forward contracts, and cross currency and interest rate swap agreements; however, the Company does not anticipate non-performance by any of the counterparties. In order to minimize counterparty risk, the Company only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transaction. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

15. Commitments and Contingencies

a) Vessels under Construction

As at December 31, 2016, the Company was committed to the construction of nine LNG carriers, three long-haul towage vessels, three shuttle tankers, one FSO conversion and one FPSO upgrade for a total cost of approximately $3.0 billion, including capitalized interest and other miscellaneous construction costs. Vessels in which the Company holds an interest through non-consolidated joint ventures are excluded from the above amounts and are described in Note 15b. Three LNG carriers are scheduled for delivery in 2017, four LNG carriers are scheduled for delivery in 2018 and two LNG carriers are scheduled for delivery in 2019. Three long-distance towing and offshore installation vessels are scheduled for delivery during 2017, three shuttle tankers are expected to be delivered in late-2017 through the first half of 2018, the one FSO conversion is scheduled for completion in mid-2017 and the one FPSO upgrade is scheduled for completion in 2017. As at December 31, 2016, payments made towards these commitments totaled $1.0 billion. As at December 31, 2016, the remaining payments required to be made under these newbuilding and conversion capital commitments were $1.1 billion (2017), $607.3 million (2018), $250.3 million (2019).

b) Joint Ventures

Teekay LNG's share of commitments to fund newbuilding and other construction contract costs of its non-consolidated joint ventures as at December 31, 2016 are as follows:

	Total	2017	2018	2019	2020
	$	$	$	$	$
Yamal LNG Joint Venture (i)	883,030	91,800	344,850	247,800	198,580
BG Joint Venture (ii)	195,565	80,010	86,154	29,401	—
Bahrain LNG Joint Venture (iii)	224,080	110,364	80,097	33,619	—
Exmar LPG Joint Venture (iv)	77,504	58,096	19,408	—	—
	1,380,179	340,270	530,509	310,820	198,580

(i) Teekay LNG, through the Yamal LNG Joint Venture, has a 50% ownership interest in six 172,000-cubic meter ARC7 LNG carrier newbuildings that have an estimated total fully built-up cost of $2.1 billion. As at December 31, 2016, Teekay LNG's proportionate costs incurred under these newbuilding contracts totaled $153.3 million. The

Yamal LNG Joint Venture intends to secure debt financing for the six LNG carrier newbuildings prior to their scheduled deliveries.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

(ii) Teekay LNG acquired an ownership interest in the BG Joint Venture and, as part of the acquisition, agreed to assume Shell's obligation to provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery dates pursuant to a ship construction support agreement. The BG Joint Venture has secured financing of $137.1 million related to the commitments included in the table above and Teekay LNG is scheduled to receive $10.9 million of reimbursement directly from Shell.

(iii) Teekay LNG has a 30% ownership interest in the Bahrain LNG Joint Venture for the development of an LNG receiving and regasification terminal in Bahrain. The project will include a FSU, which will be modified from one of the Teekay LNG's existing MEGI LNG carrier newbuildings, an offshore gas receiving facility, and an onshore nitrogen production facility. The terminal will have a capacity of 800 million standard cubic feet per day and will be owned and operated under a 20-year agreement commencing early-2019. The receiving and regasification terminal is expected to have a fully-built up cost of approximately $960.0 million. The Bahrain LNG Joint Venture has secured debt financing for approximately 75% of the estimated fully built-up cost of the LNG receiving and regasification terminal in Bahrain.

(iv) Teekay LNG has a 50% ownership interest in the Exmar LPG Joint Venture which has four LPG newbuilding vessels scheduled for delivery between 2017 and 2018 and has secured financing for the four LPG carrier newbuildings.

In October 2014, Teekay Offshore sold a 1995-built shuttle tanker, the Navion Norvegia, to a 50/50 joint venture with Brazilian-based Odebrecht Oil & Gas S.A. (or OOG). The vessel is committed to a new FPSO conversion for the Libra field located in the Santos Basin offshore Brazil. The conversion project has been completed at Sembcorp Marine's Jurong Shipyard in Singapore and the FPSO unit is scheduled to commence operations in mid-2017 under a 12-year fixed-rate contract with Petrobras. The FPSO conversion is expected to cost approximately $1.0 billion. As at December 31, 2016, payments made by the joint venture towards these commitments totaled $700.6 million and the estimated remaining payments required to be made are $302.3 million (2017). The joint venture secured a long-term debt facility providing total borrowings of up to $804.0 million for the FPSO conversion, of which $266.7 million was undrawn as at December 31, 2016. During 2016, as a result of certain defaults on interest payments by an OOG affiliate which OOG had guaranteed, the Libra Joint Venture was required to obtain cross default waivers from the lenders of the construction period loan facility. The current waiver is due to expire on June 16, 2017. Although the Libra Joint Venture expects to obtain further cross default waivers from the facility lenders, a failure to do so could adversely affect its ability to fund and complete the Libra FPSO conversion.

c)Liquidity

As of December 31, 2016, the Company adopted the new accounting standard ASC-205-40, Presentation of Financial Statements - Going Concern, which requires management to assess if the Company will have sufficient liquidity to continue as a going concern for the one-year period following the issuance of its financial statements. Despite generating $87 million of consolidated net income and $620 million of consolidated cash flows from operating activities during 2016, the Company ended the year with a working capital deficit of $365 million. This working capital deficit is driven primarily from scheduled 2017 maturities and repayments of outstanding consolidated debt of approximately $1.0 billion, which were classified as current liabilities as at December 31, 2016. In addition to these obligations, the Company also anticipates that Teekay LNG and Teekay Offshore will be required to make payments related to commitments to fund vessels under construction or undergoing conversions/upgrades. (see Notes 15a and 15b).

Based on these factors, over the one-year period following the issuance of its consolidated financial statements, the Company's consolidated subsidiaries Teekay Tankers, Teekay LNG and Teekay Offshore will need to obtain additional sources of financing, in addition to amounts generated from operations, to meet the minimum liquidity requirements under the financial covenants related to these subsidiaries. These anticipated sources of financing include: raising additional capital through equity issuances; refinancing and increasing amounts available under various loan facilities of Teekay Tankers, Teekay LNG and Teekay Offshore; negotiating new secured debt financings related to vessels under construction or other unencumbered operating vessels for Teekay Tankers, Teekay LNG and Teekay Offshore; and, for Teekay Offshore, negotiating extensions or redeployments of existing assets and the sale of partial interests in certain assets. The success of these initiatives of the Daughter Companies may impact the liquidity of Teekay Parent as a result of certain guarantees provided by Teekay Parent and through the payment of dividends/distributions by the Daughter Companies to Teekay Parent.

The Company is actively pursuing the alternatives described above, which it considers probable of completion based on the Company's history of being able to raise equity, refinance similar loan facilities and to obtain new debt financing for its vessels under construction, as well as the progress it has made on the financing process to date and indicative offers received from potential investors in certain assets. The Company is in various stages of completion on these matters.

Based on the Company's liquidity at the date these consolidated financial statements were issued, the liquidity it expects to generate from operations over the following year, and by incorporating the Company's plans to raise additional liquidity that it considers probable of completion, the Company estimates that it will have sufficient liquidity to continue as a going concern for at least the one-year period following the issuance of these consolidated financial statements.

d)Legal Proceedings and Claims

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

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Polar Spirit contract termination

In December 2016, Teekay was awarded $42.4 million plus interest by an arbitrator for unpaid hire and damages for termination of a time-charter contract relating to the Polar Spirit. The charterers have not responded and Teekay is looking to enforce the award. As the collectability of the award is uncertain, no amounts have been accrued.

Cancellation of two UMS newbuilding contracts

In August 2014, Teekay Offshore acquired 100% of the outstanding shares of Logitel, a Norway-based company focused on high-end UMS. As part of this transaction, Teekay Offshore assumed three UMS newbuilding contracts ordered from COSCO. Teekay Offshore took delivery of one of the UMS newbuildings, the Arendal Spirit, in February 2015.

In June 2016, Teekay Offshore canceled the UMS construction contracts for the two remaining UMS newbuildings, the Stavanger Spirit and Nantong Spirit. As a result of this cancellation, during the second quarter of 2016, Teekay Offshore wrote-off $43.7 million of the assets related to these newbuildings and reversed contingent liabilities of $14.5 million associated with the delivery of these assets. The estimate of potential damages for the cancellation of the Stavanger Spirit newbuilding contract is based on the amount due for the final yard installment of approximately $170 million less the estimated fair value of the Stavanger Spirit. Given the unique design of the vessel as well as the lack of recent sale and purchase transactions for this type of asset, the value of this vessel, and thus ultimately the amount of potential damages that may result from the cancellation, is uncertain. Pursuant to the Stavanger Spirit newbuilding contract and related agreements, Teekay Offshore believes COSCO only has recourse to the single purpose subsidiary that was a party to the Stavanger Spirit newbuilding contract and its immediate parent company, Logitel Offshore Pte. Ltd., for damages incurred.

The estimate of potential damages for the cancellation of the Nantong Spirit newbuilding contract is based upon estimates of a number of factors, including accumulated costs incurred by COSCO, sub-supplier contract cancellation costs, as well as how such costs are treated under the termination provisions in the contract. Teekay Offshore estimates that the amount of potential damages related to the cancellation of the Nantong Spirit contract could range between $10 million and $40 million. Pursuant to the Nantong Spirit newbuilding contract, Teekay Offshore believes COSCO only has recourse to the single purpose subsidiary that was a party to the Nantong Spirit newbuilding contract.

During September 2016, Sevan commenced an action against Logitel, which Teekay Offshore acquired in 2014, in the Oslo District Court. The action relates to the agreements between Sevan and CeFront, related to the 2013 transfer to Logitel Offshore Pte. Ltd. or its wholly-owned subsidiaries (collectively Logitel Offshore) of two hulls to be converted into UMS, including the $60 million bond loan (of which $41 million was a vendor credit and $19 million was a cash loan) granted by a Sevan affiliate to Logitel (or the 2013 Transaction). The action also relates to agreements between Sevan and Teekay Offshore entered into in connection with Teekay Offshore's acquisition of Logitel from CeFront in 2014 (or the 2014 Transaction). Sevan has claimed that the $60 million bond loan to Logitel contravened certain provisions of the Norwegian Corporate Law and that Sevan is entitled to the remaining payment of $50 million plus interest set at the court’s discretion. Logitel intends to dispute these claims. In addition, Sevan has presented Teekay Offshore with a formal notice of claim and request for arbitration seeking $10 million for license and services fees, which Sevan claims is payable in connection with the delivery of the Arendal Spirit. The parties are in the process of selecting an arbitration tribunal and exchanging information on their respective calculations of the amount of license and service fees that may be due.

In addition, in September 2016, CeFront commenced an action against Logitel in the Oslo District Court, claiming that $2.8 million is due under a management agreement and an additional $3.6 million will fall due by May 2017 under that agreement. CeFront also claims that $3.3 million is due under the earn-out provisions of the contracts related to the Arendal Spirit and that $20.2 million is due or will become due related to the earn-out provisions of the contracts for the Stavanger Spirit and Nantong Spirit. Teekay Offshore is defending these claims based on its interpretation of the agreement. Teekay Offshore is uncertain as to the ultimate resolution of these claims.

As at December 31, 2016, Teekay Offshore has accrued $61.9 million in the aggregate related to the above claims and potential claims related to Logitel from Sevan, COSCO and CeFront.

Petrojarl Knarr FPSO

In October 2016 Teekay Offshore received a claim from Royal Dutch Shell Plc (or Shell) for liquidated damages of $23.6 million. This claim is based on Shell's allegation that the Petrojarl Knarr FPSO did not meet the conditions for achieving the Offshore Completion milestone on time. Shell is also claiming that the inability of Teekay Offshore to meet the Offshore Completion milestone date in excess of the grace period has in effect resulted in a 20% reduction in the purchase price for which Shell may purchase the Petrojarl Knarr FPSO from Teekay Offshore pursuant to an option granted in the Purchase Option Agreement. In the counterclaim, Teekay Offshore has alleged that Offshore Completion was achieved after the milestone but within the grace period and that Shell had caused delays due to certain defaults in Shell’s specifications, as well as other events. It is Teekay Offshore’s position that, due to delays caused by Shell, Teekay Offshore is entitled to the daily lease rate for the unit for a period of time prior to when Shell actually started paying such rate and that Shell is not entitled to a reduction in the Purchase Option Price. The duration of any such period that Teekay Offshore claims to be entitled to receive additional daily lease payments is in dispute. However, Teekay Offshore expects that the amount of its claim relating to the counterclaim will exceed Shell's claim of liquidated damages. Nevertheless, uncertainty exists as to the resolution of the claims.

Arendal Spirit UMS

In early-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

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

the results of the review are available, Petrobras has suspended its charter hire payments since November 2016. Teekay Offshore completed an investigation to identify the cause of such incidents and has implemented corrective actions. There is a risk that Petrobras may seek to cancel the charter contract resulting from their operational review. If this occurs, the term loan outstanding for the Arendal Spirit UMS, which as at December 31, 2016 had a balance of $120 million, could become payable within 180 days of a cancellation. Teekay Offshore is working to address Petrobras' concerns to bring the unit back into operation as soon as possible. Should the contract be cancelled, it could result in a reclassification of $105 million of long-term debt to the current portion of long-term debt unless Teekay Offshore is able to obtain an extension from the lenders.

Piranema Spirit FPSO Contract

In March 2016, Petrobras claimed that Teekay Offshore’s November 2011 cessation of paying certain agency fees with respect to the Piranema Spirit FPSO unit’s employment should have resulted in a corresponding 2.0% rate reduction on the FPSO contract with Petrobras. Teekay Offshore has estimated the maximum amount of the claim at $7.5 million, consisting of $5.4 million (which is the amount accrued by Teekay Offshore as at December 31, 2016) from a return of 2.0% of the charter hire previously paid by Petrobras to Teekay Offshore for the period from November 2011 up to December 31, 2016, and $2.1 million from a 2.0% reduction of future charter hire to the end of the term of the FPSO contract with Petrobras.

Towage of the Ocean Winner

In February 2017, Teekay Offshore received a notice from Transocean Offshore International Ventures Limited (or Transocean) that it intends to file a claim against Teekay Offshore arising from the towage of the Transocean Winner oil rig by one of its towage vessels, the ALP Forward. Transocean intends to file a claim to recover losses it incurred relating to the grounding of the Transocean Winner in August 2016, including the costs associated with the salvage, replacement tow and other costs payable by Transocean as a result of this incident. Teekay Offshore intends to dispute these claims and believes that such claims would be covered by insurance. As at December 31, 2016, Teekay Offshore had not accrued for any potential liability relating to these claims. An estimate of the possible loss or range of loss cannot be made at this time.

Damen Shipyard Group

In December 2014, Teekay Offshore acquired the Petrojarl I FPSO unit from Teekay Corporation for $57.0 million. The Petrojarl I is undergoing upgrades at the Damen Shipyard Group’s DSR Schiedam Shipyard (or Damen) in the Netherlands with an estimated total cost of approximately $350 million, which includes the cost of acquiring the Petrojarl I. The FPSO is expected to commence operations in the late-2017 under a five-year charter contract with Queiroz Galvão Exploração e Produção SA (or QGEP). As at December 31, 2016, payments made towards these commitments, including the acquisition of the Petrojarl I FPSO unit from Teekay Corporation, totaled $252.5 million and the remaining payments required to be made are estimated to be $97.5 million in 2017. Teekay Offshore is currently in negotiations with the yard regarding the valuation of certain variation orders relating to the upgrades. The outcome of these negotiations may impact the total estimated cost of the Petrojarl I FPSO unit. Teekay Offshore has financed $171.2 million of the Pertrojarl I FPSO upgrade cost through a fully-drawn long-term loan. Due to project delays in the delivery of the unit resulting from shipyard delays, an increased scope of work relating to field-specific requirements and the age of the unit, Teekay Offshore is currently in discussions with QGEP, Damen and its lenders in the Petrojarl I loan facility to agree on revised delivery and charterer acceptance dates for the unit and other terms associated with the charter, shipyard contract and loan facility. In October 2016, December 2016, February 2017, and

April 2017 the lenders agreed to extend the availability date of the loan for successive periods of two months, as the loan was subject to a mandatory prepayment provision, initially in early October 2016, if the unit was not accepted at that time by QGEP. These interim extensions provide additional time for Teekay Offshore to negotiate a revised schedule for the delivery of the unit and thereafter, amend the loan facility to reflect the revised delivery schedule. As at December 31, 2016, Teekay Offshore had $60 million held in escrow to fund the final upgrade costs (December 31, 2015 - nil). This amount is presented in restricted cash on the consolidated balance sheet.

STX Offshore & Shipbuilding Co.

In April 2013, four special purpose subsidiary companies of Teekay Tankers entered into agreements with STX Offshore & Shipbuilding Co., Ltd (or STX) of South Korea to construct four, fuel-efficient 113,000 dead-weight tonne Long Range 2 (or LR2) product tanker newbuildings. At the same time, Teekay Tankers entered an Option Agreement with STX allowing Teekay Tankers to order up to 12 additional vessels. The payment of Teekay Tankers' first shipyard installment was contingent on Teekay Tankers receiving acceptable refund guarantees for the shipyard installment payments. At around the same time, however, STX commenced a voluntary financial restructuring with its lenders, and as a result, STX's ability to obtain the necessary refund guarantees in respect of the four firm shipbuilding contracts was severely affected. In October and November 2013, Teekay Tankers went on to exercise its rights under the Option Agreement to order eight additional newbuildings. The further required shipbuilding contracts were not entered into by STX within the timeframe specified in the Option Agreement. By December 2013, Teekay Tankers had determined that there was no prospect of the refund guarantees being provided under any of the firm shipbuilding contracts and then by February 2014 that there was no prospect of the same in respect of the further contracts to be entered pursuant to the Option Agreement or of that agreement being otherwise performed by STX. In December 2013, therefore, the subsidiaries of Teekay Tankers gave STX notice that it was treating STX as having repudiated the four firm shipbuilding contracts. Then in February 2014, Teekay Tankers gave STX notice that it was treating STX as having repudiated the Option Agreements. In February and March 2014, Teekay Tankers and its subsidiaries commenced legal proceedings against STX for damages. This involved arbitration proceedings in London in respect of the four firm shipbuilding contracts and English High Court proceedings in respect of the Option Agreement. In November 2014, Teekay Tankers, on behalf of the subsidiaries, placed $0.6 million in an escrow account as cash security in respect of STX's legal costs relating to the arbitration proceedings. These funds were classified as cash and cash equivalents in Teekay Tankers' consolidated balance sheets as of December 31, 2015.

On February 15, 2016, Teekay Tankers' subsidiaries had successfully obtained an English Court Order requiring STX to pay a total of $32.4 million in respect of the four firm shipbuilding contracts. As a result, Teekay Tankers' subsidiaries have exercised their rights under English law to seek the assistance of the English court in the enforcement of the arbitration awards. Teekay Tankers and its subsidiaries are also pursuing other routes to enforce the awards against STX. Additionally, the $0.6 million cash deposit was refunded in March 2016.

STX has filed for bankruptcy protection and as of December 31, 2016, all Korean enforcement actions are stayed. STX has had that protection recognized in England and Wales. Teekay Tankers will not be in a position to take any further action on enforcement and recognition of its award in the UK or Korea while the bankruptcy protection remains in place. No amounts have been recorded as receivable in respect of these awards due to uncertainty of their collection.

The option agreement case has gone through trial and despite finding that Teekay Tankers had valid option agreements, the judgment was ruled against Teekay Tankers due to uncertainty of delivery dates. Teekay Tankers is considering whether to appeal this ruling.

Class Action Complaint

Following the Company's announcement in December 2015 that its Board of Directors had reduced the Company's quarterly dividend to $0.055 per share, down from a dividend of $0.55 per share in the fourth quarter of 2015 dividend payable in February 2016 and the subsequent decline of the price of the Company's common stock, a class action complaint was filed on March 1, 2016 in the U.S. District Court for the District of Connecticut against the Company and certain of its officers. As a result of the Company's motion to transfer the action, the case was transferred to the U.S. District Court for the Western District of Washington on November 18, 2016. The lead plaintiff in the action filed an Amended Class Action Complaint on January 13, 2017. The Amended Complaint includes claims that the Company and certain of its officers violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. The Amended Complaint alleges that the Company and certain of its officers violated federal securities laws by making materially false and misleading statements regarding the Company's ability and intention to increase its future dividends beyond the initial dividend increase to $0.55 per share that the Company announced in September 2014 and first declared in the second quarter of 2015, thereby artificially inflating the price of its common stock. The lead plaintiff is seeking unspecified monetary damages, including reasonable costs and expenses incurred in this action. The Company is vigorously defending against the claims. The Company filed a motion to dismiss the Amended Complaint on March 14, 2017. The motion to dismiss will be fully briefed and ready for consideration by the Court on June 14, 2017. Based on the current stage of this action and the Company's evaluation of the facts available at this time, the amount or range of reasonably possible losses to which the Company is exposed cannot be estimated and the ultimate resolution of this matter and the associated financial impact to the Company, if any, remains uncertain at this time. The Company maintains a Directors and Officers insurance policy that provides a fixed amount of coverage for such claims, subject to coverage defenses, and a deductible to be paid by the Company.

Teekay Nakilat Capital Lease

Teekay LNG owns a 70% interest in Teekay Nakilat Corporation (or Teekay Nakilat Joint Venture), which was the lessee under three separate 30-year capital lease arrangements with a third party for three LNG carriers (or the RasGas II LNG Carriers). Under the terms of the leasing arrangements in respect of the RasGas II LNG Carriers, the lessor claimed tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks were assumed by the lessee, in this case the Teekay Nakilat Joint Venture. Lease payments under the lease arrangements were based on certain tax and financial assumptions at the commencement of the leases and subsequently adjusted to maintain its agreed after-tax margin. On December 22, 2014, the Teekay Nakilat Joint Venture terminated the leasing of the RasGas II LNG Carriers. However, the Teekay Nakilat Joint Venture remains obligated to the lessor to maintain the lessor's agreed after-tax margin from the commencement of the lease to the lease termination date and placed $6.8 million on deposit with the lessor as security against any future claims and recorded as part of restricted cash - long term in the Company's consolidated balance sheets.

The UK taxing authority (or HMRC) has been challenging the use of similar lease structures in the UK courts. One of those challenges was eventually decided in favor of HMRC (Lloyds Bank Equipment Leasing No. 1 or LEL1), with the lessor and lessee choosing not to appeal further. The LEL1 tax case concluded that capital allowances were not available to the lessor. On the basis of this conclusion, HMRC is now asking lessees on other leases, including the Teekay Nakilat Joint Venture, to accept that capital allowances are not available to their lessor. The Teekay Nakilat Joint Venture does not accept this contention and has informed HMRC of this position. It is not known at this time whether the Teekay Nakilat Joint Venture would eventually prevail in court. If the former lessor of the RasGas II LNG Carriers were to lose on a similar claim from HMRC, Teekay LNG's 70% share of the Teekay Nakilat Joint Venture's potential exposure is estimated to be approximately $60 million. Such estimate is primarily based on information received from the lessor.

e)Redeemable Non-Controlling Interest

During 2010, an unrelated party contributed a shuttle tanker with a value of $35.0 million to a subsidiary of Teekay Offshore for a 33% equity interest in the subsidiary. The non-controlling interest owner of Teekay Offshore's 67%-owned subsidiary holds a put option which, if exercised, would obligate Teekay Offshore to purchase the non-controlling interest owner's 33% share in the entity for cash in accordance with a defined formula. The redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at December 31, 2016.

In July 2015, Teekay Offshore issued 10.4 million of its 8.60% Series C Cumulative Convertible Perpetual Preferred Units (or Series C Preferred Units) in a private placement for net proceeds of approximately $249.8 million. The terms of the Series C Preferred Units provided that at any time after the 18-month anniversary of the closing date, at the election of each holder, the Series C Preferred Units could be converted on a

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

one-for-one basis into common units of Teekay Offshore. In addition, if after the three-year anniversary of the closing date, the volume weighted average price of the common units exceeded $35.925, Teekay Offshore had the option to convert the Series C Preferred Units into common units. Distributions on the Series C Preferred Units were cumulative from the date of original issue and are payable quarterly in arrears, when, as and if declared by the board of directors of the general partner. The Series C Preferred Units could be redeemed in cash if a change of control occurred in Teekay Offshore.

In June 2016, Teekay Offshore and the holders of the Series C Preferred Units exchanged approximately 1.9 million of the Series C Preferred Units for approximately 8.3 million common units of Teekay Offshore. The number of common units issued consists of the approximately 1.9 million common units that would have been issuable under the original conversion terms of the Series C Preferred Units plus an additional approximately 6.4 million common units to induce the exchange (the Inducement Premium). The value of the additional 6.4 million common units on the date of conversion was approximately $37.7 million, of which $26.7 million has been charged to non-controlling interest and $11.0 million has been charged to retained earnings on the Company's consolidated balance sheet as at December 31, 2016.

In June 2016, Teekay Offshore and the holders of the Series C Preferred Units also exchanged the remaining approximately 8.5 million Series C Preferred Units for approximately 8.5 million Cumulative Convertible Perpetual Preferred Units (or the Series C-1 Preferred Units). The terms of the Series C-1 Preferred Units are equivalent to the terms of the Series C Preferred Units, with the exception that at any time after the 18-month anniversary of the original Series C Preferred Units closing date, at the election of each holder, each Series C-1 Preferred Unit is convertible into 1.474 common units of Teekay Offshore. In addition, if a unitholder of the Series C-1 Preferred Units elects to convert their Series C-1 Preferred Units into common units of Teekay Offshore, Teekay Offshore now has the option to redeem these Series C-1 Preferred Units for cash based on the closing market price of the common units of Teekay Offshore instead of common units. Furthermore, if after the three-year anniversary of the closing date, the volume weighted average price of the common units exceeds 150% of $16.25 per unit, Teekay Offshore has the option to convert the Series C-1 Preferred Units into common units. In addition, unlike the Series C Preferred Units, for which distributions were to be paid in cash, quarterly distributions on the Series C-1 Preferred Units for the eight consecutive quarters ending March 31, 2018 may be paid in Teekay Offshore's sole discretion, in cash, common units (at a discount of 2% to the 10-trading day volume weighted average price ending on the distribution declaration date) or a combination of cash and common units (at the same discount), and thereafter, the distributions will be paid in cash. Consistent with the terms of the Series C Preferred Units, the Series C-1 Preferred Units may be redeemed in cash if a change of control occurs in Teekay Offshore. As a result, the Series C-1 Preferred Units are included on the Company’s consolidated balance sheet as part of temporary equity which is above the equity section but below the liabilities section. The exchange of the Series C Preferred Units for Series C-1 Preferred Units has been accounted for as an extinguishment of the Series C Preferred Units and the issuance of the Series C-1 Preferred Units. As a result, the excess of the carrying value of the Series C Preferred Units over the fair value of the Series C-1 Preferred Units was approximately $20.6 million, of which $14.6 million was accounted for as an increase to non-controlling interest and $6.0 million as an increase to retained earnings on the Company's consolidated balance sheet (the Exchange Contribution) as at December 31, 2016.

In June 2016, Teekay Offshore issued 4.0 million of its 10.50% Series D Preferred Units, of which 1,040,000 of the Series D Preferred Units were purchased by Teekay. Teekay Offshore pays to holders of the Series D Preferred Units a cumulative, quarterly cash distribution in arrears at an annual rate of 10.50%. However, Teekay Offshore may elect, in its sole discretion, to pay the quarterly distributions for the first eight consecutive quarters following issuance in cash, common units (at a discount of 4% to the 10-trading day volume weighted average price ending on the distribution declaration date) or a combination of cash and common units (at the same discount), and thereafter the distributions will be paid in cash. The Series D Preferred Units have no mandatory redemption date, but they are redeemable at Teekay Offshore's option after June 29, 2021 for a 10% premium to the liquidation value and for a 5%

premium to the liquidation value any time after June 29, 2022. The Series D Preferred Units are exchangeable into common units of Teekay Offshore at the option of the holder at any time after June 29, 2021, based on the greater of the 10-trading day volume weighted average price at the time of the notice of exchange or $4.00. A change of control event involving the purchase of at least 90% of the common units would result in the Series D Preferred Units being redeemable for cash. As a result, the Series D Preferred Units, net of Teekay's units, are included on the Company’s consolidated balance sheet as part of temporary equity which is above the equity section but below the liabilities section.

f)Other

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

16. Supplemental Cash Flow Information

a)The changes in operating assets and liabilities for the years ended December 31, 2016, 2015, and 2014, are as follows:

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

	Year Ended December 31,		
	2016	2015	2014
Accounts receivable	96,497	(6,488)	136,660
Prepaid expenses and other	9,690	(10,607)	(1,618)
Accounts payable	(10,705)	(24,727)	(17,643)
Accrued liabilities and other	(57,149)	29,531	(56,768)
	38,333	(12,291)	60,631

b) Cash interest paid, including realized interest rate swap settlements, during the years ended December 31, 2016, 2015, and 2014, totaled $341.0 million, $318.1 million and $328.2 million, respectively. In addition, during the years ended December 31, 2016, 2015, and 2014, cash interest paid relating to interest rate swap amendments and terminations totaled $8.1 million, $10.9 million and $1.3 million, respectively.

c) In 2016, the portion of the distributions paid in kind by Teekay Offshore to the unit holders of Series C-1 Preferred Units and Series D Preferred Units, of $11.7 million was treated as a non-cash transaction in the consolidated statements of cash flows.

d) As described in Note 3b, in August 2015, Teekay Tankers agreed to acquire 12 modern Suezmax tankers from Principal Maritime. As of December 31, 2015, all 12 of the vessels had been delivered for a total purchase price of $661.3 million, consisting of $612.0 million in cash and approximately 7.2 million shares of Teekay Tankers' Class A common stock or $49.3 million, which was treated as a non-cash transaction in the consolidated statement of cash flows.

e) During 2014, the Company had several transactions treated as non-cash transactions in the consolidated statements of cash flows. The Company took ownership of three VLCCs with a fair value of $222.0 million, which were collateral for all amounts owing under the investment in term loans, which was concurrently discharged. As described in Note 3f, Teekay LNG acquired BG's ownership interest in the BG Joint Venture. As compensation, Teekay LNG assumed BG's obligation to provide services for the four LNG carrier newbuildings up to their delivery dates. The estimated fair value of the assumed obligation of approximately $33.3 million was used to offset the purchase price. The sales of the Huelva Spirit, and Algeciras Spirit conventional tankers resulted in the vessels under capital leases being returned to the owner and the capital lease obligations being concurrently extinguished. The portion of dividends declared by the Teekay Tangguh Joint Venture that was used to settle the advances made to BLT LNG Tangguh Corporation and P.T. Berlian Laju Tanker of $14.4 million was treated as a non-cash transaction.

17. Vessel Sales, Asset Impairments and Provisions

a) Asset Impairments

During the fourth quarter of 2016, the carrying value of the Navion Marita was written down to its estimated fair value, using an appraised value, as a result of fewer opportunities to trade the vessel in the spot conventional tanker market. The Company's consolidated statement of income for the year ended December 31, 2016, includes a $2.1 million write-down related to this vessel. The write-down is included in the Teekay Offshore Segment.

In 2016, Teekay Offshore canceled the UMS construction contracts for its two UMS newbuildings. As a result, the carrying values of these two UMS newbuildings were written down to $nil. The Company's consolidated statement of income for the year ended December 31, 2016 includes a $43.7 million write-down related to these two UMS newbuildings. The write-down is included in the Teekay Offshore Segment.

During 2015, seven of Teekay Offshore’s 1990s-built shuttle tankers were written down to their estimated fair value, using appraised values. Of the seven shuttle tankers, during the first quarter of 2015, one shuttle tanker was written down as a result of the expected sale of the vessel and the vessel was classified as held for sale on the Company’s consolidated balance sheet as at December 31, 2015. An additional shuttle tanker was written down during the first quarter of 2015 as a result of a change in the operating plan of the vessel. In the fourth quarter of 2015, the write-down of five shuttle tankers, which had an average age of 17.5 years, was the result of changes in Teekay Offshore’s expectations of their future opportunities, primarily due to their advanced age. The Company’s consolidated statement of income for the year ended December 31, 2015, includes total write-downs of $66.7 million related to these seven shuttle tankers. The write-downs are included in the Teekay Offshore Segment.

b) Loan Loss Recoveries

During 2014, the Company reversed a $2.5 million loss provision for an amount receivable related to an FPSO front-end engineering and design study completed in 2013, as this receivable was recovered in 2014.

c) Net (Loss) Gain on Sale of Vessels, Equipment and Other Operating Assets

The Company's sale of vessels generally consists of those vessels approaching the end of their useful lives as well as other vessels it strategically sells to reduce exposure to a certain vessel class.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

The following table shows the net (loss) gain on sale of vessels, equipment and other operating assets for the years ended December 31, 2016, 2015, and 2014:

Segment	Asset Type	Completion of Sale Date	Net (Loss) Gain on Sale of Vessels, Equipment and Other Operating Assets Year Ended December 31, 2016 $	2015 $	2014 $
Teekay Offshore Segment	FSO unit	(1)	(983)	—	—
Teekay Offshore Segment	Shuttle tanker	Nov-16	6,817	—	—
Teekay Offshore Segment	Shuttle tanker	Mar-15	—	1,643	(4,759)
Teekay Offshore Segment	Shuttle tanker	Oct-14	—	—	3,121
Teekay Offshore Segment	2 Conventional Tankers	Mar-16	65	(3,897)	—
Teekay LNG Segment - Conventional Tankers	Suezmax	Mar-17	(11,537)	—	—
Teekay LNG Segment - Conventional Tankers	2 Suezmaxes	Apr/May-2016	(27,439)	—	—
Teekay Tankers Segment - Conventional Tankers	2 Suezmaxes	Jan-17	(6,276)	—	—
Teekay Tankers Segment - Conventional Tankers	MR Tanker	Nov-16	(8,094)	—	—
Teekay Tankers Segment - Conventional Tankers	MR Tanker	Aug-16	(6,556)	—	—
Teekay Tankers Segment - Conventional Tankers	2 VLCCs	May-14	—	—	9,955
Teekay Parent Segment - Conventional Tankers	VLCC	Oct-16	(12,495)	—	—
Other			48	(177)	433
Total			(66,450)	(2,431)	8,750

(1) This vessel is expected to be sold in 2017.

See Note 2 – Segment Reporting for the asset impairments, loan loss recoveries, and net (loss) gain on sale of vessels, equipment and other operating assets, by segment for 2016, 2015 and 2014.

18. (Loss) Earnings Per Share

	Year Ended December 31, 2016 $	2015 $	2014 $
Net (loss) income attributable to shareholders of Teekay Corporation	(123,182)	82,151	(54,757)
The Company's portion of the Inducement Premium and Exchange Contribution charged to retained earnings by Teekay Offshore (note 15e)	(4,993)	—	—
Net (loss) income attributable to shareholders of Teekay Corporation for basic income (loss) per share	(128,175)	82,151	(54,757)
	(25)	(227)	—

Reduction in net earnings due to dilutive impact of stock-based compensation in Teekay LNG, Teekay Offshore and Teekay Tankers and Series C-1 Preferred Units in Teekay Offshore			
Net (loss) income attributable to shareholders of Teekay Corporation for diluted income (loss) per share	(128,200)	81,924	(54,757)
Weighted average number of common shares	79,211,154	72,665,783	72,066,008
Dilutive effect of stock-based compensation	—	524,781	—
Common stock and common stock equivalents	79,211,154	73,190,564	72,066,008
(Loss) Earnings per common share:			
- Basic	(1.62)	1.13	(0.76)
- Diluted	(1.62)	1.12	(0.76)

Stock-based awards, which have an anti-dilutive effect on the calculation of diluted loss per common share, are excluded from this calculation. For the years ended December 31, 2016 and 2015, options to acquire 3.8 million shares and 1.4 million shares of Common Stock, respectively, had an anti-dilutive effect on the calculation of diluted earnings per common share. In periods where a loss attributable to shareholders has been incurred all stock-based awards are anti-dilutive.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

19. Restructuring Charges
During 2016, the Company recorded restructuring charges of $26.8 million ($14.0 million – 2015, $9.8 million - 2014).

The restructuring charges in 2016 primarily relate to the closure of two offices and seafarers' severance amounts related to the tug business in Western Australia, reorganization of the Company's FPSO business to create better alignment with the Company's offshore operations, and reductions to charges previously accrued. The charges related to the seafarers' severance were partly recovered from customers and the recovery is included in revenues on the consolidated statements of income.

The restructuring charges in 2015 relate to the termination of the employment of certain seafarers upon the expiration of a time-charter-out contract, the reorganization of the Company's marine operations and corporate services, and the change in crew on a vessel as requested by a charterer. The actual restructuring charges relating to the termination of the employment of certain seafarers upon the expiration of a time-charter-out contract and the change in crew on a vessel as requested by a charterer in the amount of $8.4 million were fully reimbursed to the Company by the charterers and the net reimbursement is included in voyage revenues.

The restructuring charges in 2014 relate to the termination of the employment of certain seafarers upon the re-delivery of an in-chartered conventional tanker in December 2014 and upon the sale of a vessel under capital lease to a third party in August 2014, and the reflagging of one shuttle tanker which commenced in January 2014 and was completed in March 2014, partially offset by an adjustment to the accrual for costs related to the reorganization of the Company's marine operations.

At December 31, 2016 and 2015 $5.6 million and $3.2 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

20. Income Taxes
Teekay and a majority of its subsidiaries are not subject to income tax in the jurisdictions in which they are incorporated because they do not conduct business or operate in those jurisdictions. However, among others, the Company's U.K. and Norwegian subsidiaries are subject to income taxes.

The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2016 $	December 31, 2015 $
Deferred tax assets:		
Vessels and equipment	40,928	43,289
Tax losses carried forward(1)	276,291	321,648
Other	17,075	22,141
Total deferred tax assets	334,294	387,078
Deferred tax liabilities:		
Vessels and equipment	5,974	10,577
Long-term debt	1,691	3,218
Other	11,626	15,090
Total deferred tax liabilities	19,291	28,885
Net deferred tax assets	315,003	358,193

Valuation allowance	(290,015)	(322,491)
Net deferred tax assets	24,988	35,702

Net deferred tax assets are presented in other non-current assets and other long term liabilities in the accompanying consolidated balance sheets. Certain of the balances in the comparative columns above have been adjusted with no impact on the amount of the net deferred tax assets.

(1) Substantially all of the Company's net operating loss carryforwards of $1.26 billion relate primarily to its Norwegian, U.K., Spanish, and Luxembourg subsidiaries and, to a lesser extent, to its Australian ship-owning subsidiaries. These net operating loss carryforwards are available to offset future taxable income in the respective jurisdictions, and can be carried forward indefinitely. The Company also has $36.4 million in disallowed finance costs that relate to its Spanish subsidiaries and are available to offset future taxable income in Spain and can also be carried forward indefinitely.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

The components of the provision for income taxes are as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	$	$	$
Current	(14,424)	(10,440)	(6,460)
Deferred	(10,044)	27,207	(3,713)
Income tax (expense) recovery	(24,468)	16,767	(10,173)

The Company operates in countries that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. Reconciliations of the tax charge related to the relevant year at the applicable statutory income tax rates and the actual tax charge related to the relevant year are as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	$	$	$
Net income before taxes	111,132	388,693	134,175
Net income (loss) not subject to taxes	57,862	252,604	(80,454)
Net income subject to taxes	53,270	136,089	214,629
At applicable statutory tax rates	5,996	32,750	39,382
Permanent and currency differences, adjustments to valuation allowances and uncertain tax positions	18,198	(49,789)	(28,027)
Other	274	272	(1,182)
Tax expense (recovery) related to the current year	24,468	(16,767)	10,173

The following is a roll-forward of the Company's unrecognized tax benefits, recorded in other long-term liabilities, from January 1, 2014 to December 31, 2016:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	$	$	$
Balance of unrecognized tax benefits as at January 1	18,390	20,335	20,304
Increases for positions related to the current year	6,422	4,578	3,643
Changes for positions taken in prior years	(3,729)	(2,965)	1,015
Decreases related to statute of limitations	(1,591)	(3,558)	(4,627)
Balance of unrecognized tax benefits as at December 31	19,492	18,390	20,335

The majority of the net increase for positions relates to the potential tax on freight income on an increased number of voyages for the year ended December 31, 2016.

The Company does not presently anticipate such uncertain tax positions will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected. The tax years 2007 through 2016 remain open to examination by some of the major jurisdictions in which the Company is subject to tax.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The interest and penalties on unrecognized tax benefits are included in the roll-forward schedule above and are approximately an increase of $1.2 million in 2016, net of statute barred liabilities, and a reduction of $0.3 million in 2015 and $1.6 million in 2014.

TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

21. Pension Benefits

a) Defined Contribution Pension Plans

With the exception of certain of the Company’s employees in Australia and Norway, the Company’s employees are generally eligible to participate in defined contribution plans. These plans allow for the employees to contribute a certain percentage of their base salaries into the plans. The Company matches all or a portion of the employees’ contributions, depending on how much each employee contributes. During the years ended December 31, 2016, 2015, and 2014, the amount of cost recognized for the Company’s defined contribution pension plans was $13.5 million, $15.2 million and $13.9 million, respectively.

b)