

TEEKAY CORP  
Form 6-K  
June 14, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 6-K**

**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16**  
**of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2013

Commission file number 1- 12874

**TEEKAY CORPORATION**

(Exact name of Registrant as specified in its charter)

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**4<sup>th</sup> Floor, Belvedere Building**

**69 Pitts Bay Road**

**Hamilton, HM 08, Bermuda**

**(Address of principal executive office)**

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

Form 20-F  Form 40-F

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

Yes  No

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

Yes  No

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**TEEKAY CORPORATION AND SUBSIDIARIES**

**REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013**

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**Table of Contents****ITEM 1 - FINANCIAL STATEMENTS****TEEKAY CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF (LOSS) INCOME**

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

	Three Months Ended March 31,	
	2013 \$	2012 \$
<b>REVENUES</b>	451,037	501,106
<b>OPERATING EXPENSES</b>		
Voyage expenses	26,315	38,637
Vessel operating expenses	187,464	187,754
Time-charter hire expense	27,452	43,979
Depreciation and amortization	102,494	114,614
General and administrative	39,271	38,362
Asset impairments <i>(note 6b)</i>	3,165	
Net loss (gain) on sale of vessels and equipment <i>(note 6a)</i>	32	(197)
Restructuring charges <i>(note 11)</i>	2,054	
<b>Total operating expenses</b>	388,247	423,149
<b>Income from vessel operations</b>	62,790	77,957
<b>OTHER ITEMS</b>		
Interest expense	(42,510)	(42,300)
Interest income	1,018	2,046
Realized and unrealized (loss) gain on non-designated derivative instruments <i>(note 14)</i>	(13,789)	4,815
Equity income <i>(note 9b)</i>	27,315	17,644
Foreign exchange gain (loss) <i>(note 7 and 14)</i>	2,191	(15,824)
Other income <i>(note 12)</i>	5,240	2,343
Net income before income taxes	42,255	46,681
Income tax (expense) recovery <i>(note 15)</i>	(2,500)	3,568
<b>Net income</b>	<b>39,755</b>	<b>50,249</b>
Less: Net income attributable to non-controlling interests	(45,891)	(49,183)
<b>Net (loss) income attributable to stockholders of Teekay Corporation</b>	<b>(6,136)</b>	<b>1,066</b>
<b>Per common share of Teekay Corporation <i>(note 16)</i></b>		
Basic (loss) income attributable to stockholders of Teekay Corporation	(0.09)	0.02
Diluted (loss) income attributable to stockholders of Teekay Corporation	(0.09)	0.02
Cash dividends declared	0.3163	0.3163
<b>Weighted average number of common shares outstanding <i>(note 16)</i></b>		
Basic	69,888,279	68,855,860
Diluted	69,888,279	70,146,586

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

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(in thousands of U.S. dollars)

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>Net income</b>	39,755	50,249
<b>Other comprehensive income (loss):</b>		
<b>Other comprehensive income (loss) before reclassifications</b>		
Unrealized loss on marketable securities	(926)	(232)
Unrealized (loss) gain on qualifying cash flow hedging instruments	(532)	2,821
Pension adjustments, net of taxes	1,464	(2,361)
Foreign exchange gain (loss) on currency translation	1,132	(760)
<b>Amounts reclassified from accumulated other comprehensive income (loss)</b>		
To other income:		
Realized loss on marketable securities		420
To general and administrative expenses:		
Realized gain on qualifying cash flow hedging instruments	(4)	(1,003)
<b>Other comprehensive income (loss)</b>	1,134	(1,115)
Comprehensive income	40,889	49,134
Less: Comprehensive income attributable to non-controlling interests	(45,933)	(49,725)
<b>Comprehensive loss attributable to stockholders of Teekay Corporation</b>	(5,044)	(591)

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

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

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

	As at March 31, 2013 \$	As at December 31, 2012 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents ( <i>note 7</i> )	479,647	639,491
Restricted cash	39,709	39,390
Accounts receivable, including non-trade of \$93,670 (2012 - \$83,046) and related party balance of \$13,927 (2012 - \$9,101)	536,250	491,656
Vessels held for sale		22,364
Net investment in direct financing leases ( <i>note 4</i> )	12,176	12,303
Prepaid expenses and other	71,787	61,549
Current portion of loans to equity accounted investees	145,374	139,183
Current portion of investment in term loans	183,018	117,820
Current portion of derivative assets ( <i>note 14</i> )	20,907	31,669
<b>Total current assets</b>	<b>1,488,868</b>	<b>1,555,425</b>
Restricted cash - non-current	494,979	494,429
Vessels and equipment ( <i>note 6 and 7</i> )		
At cost, less accumulated depreciation of \$1,914,190 (2012 - \$1,976,257)	5,954,511	6,004,324
Vessels under capital leases, at cost, less accumulated amortization of \$139,034 (2012 - \$133,228)	618,238	624,059
Advances on newbuilding contracts ( <i>note 9a</i> )	741,637	692,675
<b>Total vessels and equipment</b>	<b>7,314,386</b>	<b>7,321,058</b>
Net investment in direct financing leases - non-current ( <i>note 4</i> )	421,139	424,298
Loans to joint ventures and joint venture partners, bearing interest between 4.4% to 8.0%	103,916	67,720
Derivative assets ( <i>note 14</i> )	123,758	148,581
Equity accounted investments ( <i>note 3 and 9b</i> )	642,598	480,043
Investment in term loans		68,114
Other non-current assets	155,043	149,682
Intangible assets - net	121,376	126,136
Goodwill	166,539	166,539
<b>Total assets</b>	<b>11,032,602</b>	<b>11,002,025</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable	123,451	111,474
Accrued liabilities	306,564	363,218
Current portion of derivative liabilities ( <i>note 14</i> )	117,782	115,835
Current portion of long-term debt ( <i>note 7</i> )	674,426	797,411
Current obligation under capital leases	162,897	70,272
Current portion of in-process revenue contracts	51,907	60,627
Advances from equity accounted investees	8,305	4,064

<b>Total current liabilities</b>	1,445,332	1,522,901
Long-term debt, including amounts due to joint venture partners of \$13,282 (2012 - \$13,282) (note 7)	5,025,864	4,762,303
Long-term obligation under capital leases	472,260	567,302
Derivative liabilities (note 14)	513,077	528,187
In-process revenue contracts	170,964	180,964
Other long-term liabilities	224,076	220,079
<b>Total liabilities</b>	7,851,573	7,781,736
Commitments and contingencies (note 4, 9, and 14)		
Redeemable non-controlling interest (note 9e)	28,383	28,815
<b>Equity</b>		
Common stock and additional paid-in capital (\$0.001 par value; 725,000,000 shares authorized; 70,199,133 shares outstanding (2012 - 69,704,188); 70,698,333 shares issued (2012 - 70,203,388) (note 8)	685,484	681,933
Retained earnings	618,956	648,224
Non-controlling interest	1,861,882	1,876,085
Accumulated other comprehensive loss (note 13)	(13,676)	(14,768)
<b>Total equity</b>	3,152,646	3,191,474
<b>Total liabilities and equity</b>	11,032,602	11,002,025
Consolidation of variable interest entities (note 3a)		
Subsequent events (note 18)		
<i>The accompanying notes are an integral part of the unaudited consolidated financial statements.</i>		



**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of U.S. dollars)

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents provided by (used for)		
<b>OPERATING ACTIVITIES</b>		
Net income	39,755	50,249
Non-cash items:		
Depreciation and amortization	102,494	114,614
Amortization of in-process revenue contracts	(18,721)	(17,777)
Loss (gain) on sale of vessels and equipment and other assets	32	(2,414)
Loss on sale of marketable securities		420
Asset impairments (note 6b)	3,165	
Equity income, net of dividends received	(27,315)	(17,644)
Income tax expense (recovery)	2,500	(3,568)
Employee stock option compensation	(579)	1,408
Unrealized foreign exchange (gain) loss	(38,603)	17,806
Unrealized loss (gain) on derivative instruments	21,886	(22,465)
Other	3,227	10,145
Change in operating assets and liabilities	(105,665)	(70,204)
Expenditures for dry docking	(15,883)	(3,733)
<b>Net operating cash flow</b>	<b>(33,707)</b>	<b>56,837</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt, net of issuance costs	544,970	539,135
Scheduled repayments of long-term debt (note 7)	(120,144)	(47,559)
Prepayments of long-term debt	(250,000)	(353,086)
Repayments of capital lease obligations	(2,592)	(2,510)
Advances of loans from joint ventures and joint venture partners		(3,659)
Increase in restricted cash	(1,370)	(130,872)
Net proceeds from issuance of Teekay Tankers Ltd. shares (note 5)		65,868
Equity contribution by joint venture partner	184	
Issuance of Common Stock upon exercise of stock options	4,128	3,772
Distribution paid from subsidiaries to non-controlling interests	(61,491)	(57,420)
Cash dividends paid	(22,971)	(21,440)
<b>Net financing cash flow</b>	<b>90,714</b>	<b>(7,771)</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures for vessels and equipment	(72,196)	(46,711)
Proceeds from sale of vessels and equipment and other	22,364	195,342
Proceeds from sale of marketable securities		1,063
Investment in joint ventures	(134,109)	(155,228)
Advances to joint ventures and joint venture partners	(36,196)	(29,820)
Direct financing lease payments received	3,286	6,430
Other investing activities		19
<b>Net investing cash flow</b>	<b>(216,851)</b>	<b>(28,905)</b>

<b>(Decrease) increase in cash and cash equivalents</b>	(159,844)	20,161
Cash and cash equivalents, beginning of the period	639,491	692,127
<b>Cash and cash equivalents, end of the period</b>	<b>479,647</b>	<b>712,288</b>

Supplemental cash flow information (*note 17*)

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

	TOTAL EQUITY						
	Thousands of Shares of Common Stock Outstanding #	Common Stock and Additional Paid-in Capital \$	Retained Earnings \$	Accumulated Other Comprehensive Loss \$	Non-controlling Interests \$	Total \$	Redeemable Non-controlling Interest \$
<b>Balance as at December 31, 2012</b>	69,704	681,933	648,224	(14,768)	1,876,085	3,191,474	28,815
Net (loss) income			(6,136)		45,891	39,755	
Reclassification of redeemable non-controlling interest in net income					432	432	(432)
Other comprehensive income				1,092	42	1,134	
Dividends declared			(22,973)		(61,491)	(84,464)	
Reinvested dividends	1	2				2	
Exercise of stock options and other (note 8)	494	4,128				4,128	
Employee stock compensation (note 8)		(579)				(579)	
Addition of non-controlling interest from share and unit issuances of subsidiaries and other			(159)		923	764	
<b>Balance as at March 31, 2013</b>	70,199	685,484	618,956	(13,676)	1,861,882	3,152,646	28,383

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

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Basis of Presentation**

The unaudited interim consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (or *GAAP*). They include the accounts of Teekay Corporation (or *Teekay*), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly-owned or controlled subsidiaries (collectively, the *Company*). Certain information and footnote disclosures required by *GAAP* for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2012, included in the Company's Annual Report on Form 20-F. In the opinion of management, these unaudited financial statements reflect all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, cash flows and changes in total equity for the interim periods presented. The results of operations for the three months ended March 31, 2013, are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

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

In order to more closely align the Company's presentation to many of its peers, the cost of ship management activities of \$19.6 million related to the Company's fleet and to services provided to third parties for the three months ended March 31, 2013, have been presented as vessel operating expenses. For the three months ended March 31, 2013, revenues of \$6.5 million from ship management activities provided to third parties have been presented in revenues. Prior to 2013, the Company included these amounts in general and administrative expenses. All such costs incurred and revenues recorded in comparative periods have been reclassified from general and administrative expenses to vessel operating expenses and revenues to conform to the presentation adopted in the current period. The amounts reclassified from general and administrative expenses to vessel operating expenses were \$20.6 million for the three months ended March 31, 2012. The amounts reclassified from general and administrative expenses to revenues were \$5.5 million for the three months ended March 31, 2012.

**2. Segment Reporting**

The following tables include results for the Company's four segments for the three months ended March 31, 2013 and 2012:

	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
<b>Three Months ended March 31, 2013</b>					
Revenues	138,653	140,929	71,001	100,454	451,037
Voyage expenses	21,809		4	4,502	26,315
Vessel operating expenses	44,907	77,384	15,096	50,077	187,464
Time-charter hire expense	14,777			12,675	27,452
Depreciation and amortization	27,696	34,032	17,291	23,475	102,494
General and administrative <sup>(1)</sup>	10,504	12,361	6,196	10,210	39,271
Asset Impairments				3,165	3,165
Loss on sale of vessels and write-downs of vessels				32	32
Restructuring charges	587			1,467	2,054
Income (loss) from vessel operations	18,373	17,152	32,414	(5,149)	62,790

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Segment assets as at March 31, 2013	1,692,638	2,880,428	3,302,855	1,997,849	9,873,770
	<b>Shuttle Tanker and FSO Segment</b>	<b>FPSO Segment</b>	<b>Liquefied Gas Segment</b>	<b>Conventional Tanker Segment</b>	<b>Total</b>
<b>Three Months ended March 31, 2012</b>					
Revenues	156,235	128,668	73,585	142,618	501,106
Voyage expenses	27,015	232	96	11,294	38,637
Vessel operating expenses	49,819	74,082	12,967	50,886	187,754
Time-charter hire expense	13,617			30,362	43,979
Depreciation and amortization <sup>(1)</sup>	31,792	33,148	17,238	32,436	114,614
General and administrative	9,279	11,577	5,105	12,401	38,362
Gain on sale of vessels and write-downs of vessels				(197)	(197)
Income from vessel operations	24,713	9,629	38,179	5,436	77,957
Segment assets as at March 31, 2012	1,881,032	2,447,960	3,064,021	2,543,831	9,936,844

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

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

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

	March 31, 2013	December 31, 2012
	\$	\$
Total assets of all segments	9,873,770	9,719,938
Cash	479,647	639,491
Accounts receivable and other assets	679,185	642,596
Consolidated total assets	11,032,602	11,002,025

**3. Acquisitions****a) FPSO Unit from Sevan Marine ASA**

On November 30, 2011, the Company entered into an agreement to acquire the FPSO unit Sevan *Voyageur* (or *Voyageur Spirit*) and its existing customer contract from Sevan Marine ASA (or *Sevan*). Teekay agreed to acquire the *Voyageur Spirit* once the existing upgrade project was completed and the *Voyageur Spirit* commenced operations under its customer contract. In September 2012, the *Voyageur Spirit* completed its upgrade at the Nymo shipyard and arrived at the Huntington Field in the U.K. sector of the North Sea in October 2012. Under the terms of the agreement, Teekay prepaid Sevan \$94 million to acquire the *Voyageur Spirit*, assumed the *Voyageur Spirit*'s existing \$230.0 million credit facility, which had an outstanding balance of \$220.5 million on November 30, 2011, and was responsible for all upgrade costs incurred after November 30, 2011, which were estimated to be between \$140 million and \$150 million (see Note 9c). Teekay had control over the upgrade project and had guaranteed the repayment of the existing credit facility. First oil for the *Voyageur Spirit* occurred in April 2013 after the remaining upgrades were completed, at which time the *Voyageur Spirit* commenced its five-year charter with E.ON Ruhrgas UK E&P Limited (or *E.ON*). In May 2013, Teekay completed the acquisition of the *Voyageur Spirit* and immediately thereafter the FPSO unit was sold by Teekay to its subsidiary Teekay Offshore Partners L.P. (or *Teekay Offshore*) for \$540 million. The *Voyageur Spirit* has been consolidated by the Company since November 30, 2011, as the *Voyageur Spirit* has been determined to be a variable interest entity (or *VIE*) and the Company has been determined to be the primary beneficiary. The following table summarizes the balance sheet of the *Voyageur Spirit* as at March 31, 2013:

	\$
<b>ASSETS</b>	
Cash and cash equivalents	2,949
Other current assets	29,922
Vessels and equipment	459,194
Deferred tax assets	1,955
<b>Total assets</b>	494,020
<b>LIABILITIES AND EQUITY</b>	
Accounts payable	19,075
Accrued liabilities	4,982
Long-term debt(note 7)	230,324

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Derivative liabilities	3,889
Other long-term liabilities	19,943
<b>Total liabilities</b>	<b>278,213</b>
<b>Total equity</b>	<b>215,807</b>
<b>Total liabilities and total equity</b>	<b>494,020</b>

**b) Teekay LNG Exmar LPG BVBA Joint Venture**

On February 12, 2013, the Company's subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) entered into a joint venture agreement with Belgium-based Exmar NV (or *Exmar*) to own and charter-in liquefied petroleum gas (or *LPG*) carriers with a primary focus on the mid-size gas carrier segment. The joint venture entity (or *Exmar LPG BVBA Joint Venture*), took economic effect as of November 1, 2012 and includes 20 owned LPG carriers (including eight newbuilding carriers scheduled for delivery between 2014 and 2016, and does not take into effect the sale of the *Donau* LPG carrier in April 2013) and five chartered-in LPG carriers. For its 50% ownership interest in the joint venture, including newbuilding payments made prior to the November 1, 2012 economic effective date of the joint venture, Teekay LNG invested approximately \$134 million in exchange for equity and a shareholder loan and assumed approximately \$108 million of its pro rata share of existing debt and lease obligations as of the economic effective date. These debt and lease obligations are secured by certain vessels in the Exmar LPG BVBA fleet. The excess of the book value of net assets acquired over Teekay LNG's investment in the Exmar LPG BVBA, which amounted to approximately \$6.0 million, has been accounted for as an adjustment to the value of the vessels, charter agreements and lease obligations of Exmar LPG BVBA, in accordance with the preliminary purchase price allocation. Control of Exmar LPG BVBA is shared equally between Exmar and Teekay LNG. Teekay LNG accounts for its investment in Exmar LPG BVBA using the equity method.

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

**c) Teekay LNG Marubeni Joint Venture**

In February 2012, a joint venture between Teekay LNG and Marubeni Corporation (or *Teekay LNG-Marubeni Joint Venture*) acquired a 100% interest in six liquefied natural gas (or *LNG*) carriers (or the *MALT LNG Carriers*) from Denmark-based A.P. Moller-Maersk A/S for approximately \$1.3 billion. Teekay LNG and Marubeni Corporation (or *Marubeni*) have 52% and 48% economic interests, respectively, but share control of the Teekay LNG-Marubeni Joint Venture. Since control of the Teekay LNG-Marubeni Joint Venture is shared jointly between Marubeni and Teekay LNG, Teekay LNG accounts for its investment in the Teekay LNG-Marubeni Joint Venture using the equity method. The Teekay LNG-Marubeni Joint Venture financed this acquisition with \$1.06 billion from secured loan facilities and \$266 million from equity contributions from Teekay LNG and Marubeni Corporation. Teekay LNG has agreed to guarantee its 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and, as a result, deposited \$30 million in a restricted cash account as security for the debt within the Teekay LNG-Marubeni Joint Venture and recorded a guarantee liability of \$1.4 million. The carrying value of the guarantee liability as at March 31, 2013, was \$0.4 million and is included as part of other long-term liabilities. Teekay LNG has a 52% economic interest in the Teekay LNG-Marubeni Joint Venture and consequently its share of the \$266 million equity contribution was \$138.2 million. Teekay LNG also contributed an additional \$5.8 million for its share of legal and financing costs as part of the investment. Teekay LNG financed the equity contributions by borrowing under its existing credit facilities. The excess of the Partnership's investment in the Teekay LNG-Marubeni Joint Venture over the book value of net assets acquired, which amounted to approximately \$303 million, has been accounted for as an increase to the carrying value of the vessels and out-of-the-money charters of the Teekay LNG-Marubeni Joint Venture, in accordance with the purchase price allocation.

**4. Vessel Charters**

Teekay LNG owns a 99% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or the *Teekay Tangguh Joint Venture*), giving Teekay LNG a 69% interest in the Teekay Tangguh Joint Venture. The joint venture is a party to operating leases whereby it is leasing two LNG carriers (or the *Tangguh LNG Carriers*) to a third party, which is in turn leasing the vessels back to the joint venture. In addition to the Company's minimum charter hire payments to be paid and received under these leases for the Tangguh LNG Carriers, which are described in Note 9 to the audited consolidated financial statements filed with the Company's Annual Report on Form 20-F for the year ended December 31, 2012, the additional minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at March 31, 2013, for the Company's chartered-in and chartered-out vessels were as follows:

	Remainder of 2013	2014	2015	2016	2017
	(in millions of U.S. dollars)				
Charters-in - operating leases	67.0	37.0	15.8	9.1	9.1
Charters-in - capital leases <sup>(1)</sup>	93.1	60.0	31.8	31.7	55.0
	160.1	97.0	47.6	40.8	64.1
Charters-out - operating leases <sup>(2)</sup>	813.6	1,250.5	1,209.9	1,079.2	996.3
Charters-out - direct financing leases	37.3	48.2	47.8	48.0	42.9
	850.9	1,298.7	1,257.7	1,127.2	1,039.2

(1)



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As at March 31, 2013 and December 31, 2012, the Company had \$475.4 million and \$475.5 million of restricted cash, respectively, which, including any interest earned on such amounts, is restricted to being used for charter hire payments of certain vessels chartered-in under capital leases. The Company also maintains restricted cash deposits relating to certain term loans and other obligations, which totaled \$59.3 million and \$58.3 million as at March 31, 2013 and December 31, 2012, respectively.

- (2) The minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after March 31, 2013, revenue from unexercised option periods of contracts that existed on March 31, 2013 or variable or contingent revenues. In addition, minimum scheduled future operating lease revenues presented in the table have been reduced by estimated off-hire time for any period maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

### **5. Financing Transactions**

In February 2012, Teekay's subsidiary Teekay Tankers Ltd. (or *Teekay Tankers*) completed a public offering of 17.3 million shares of its Class A common stock (including 2.3 million shares issued upon the full exercise of the underwriters' overallotment option) at a price of \$4.00 per share, for gross proceeds of approximately \$69.0 million. As a result of the offering, the Company recorded a decrease to retained earnings of \$14.5 million, which represents the Company's dilution loss from the issuance of shares in Teekay Tankers during the three months ended March 31, 2012.

### **6. Vessel Sales and Write-downs**

#### **a) Vessel Sales**

During the three months ended March 31, 2013, the Company sold a 1992-built shuttle tanker, a 1992-built conventional tanker, and a 1998-built conventional tanker, that were part of the Company's shuttle tanker and conventional tanker segments. These vessels were classified as held for sale on the consolidated balance sheet as at December 31, 2012, with their net book values written down to their sale proceeds net of cash outlays to complete the sales. All of the vessels were older vessels that the Company disposed of in the ordinary course of business.

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**b) Write-downs**

During the three months ended March 31, 2013, the Company incurred a \$3.2 million write-down of one of its investments in term loans. The term loan borrower is facing financial difficulty and has defaulted on its interest payment obligations since January 31, 2013. The Company has assumed commercial and technical management of the vessel which collateralizes the loan. The Company reduced the net carrying amount of the investment in term loan as the value of the underlying collateral declined further during this three-month period. The net carrying amount of the impaired loan consists of the present value of expected future cash flows at March 31, 2013 and will be adjusted each subsequent reporting period to reflect any changes in the present value of expected future cash flows.

**7. Long-Term Debt**

	March 31, 2013	December 31, 2012
	\$	\$
Revolving Credit Facilities	1,884,328	1,627,979
Senior Notes (8.5%) due January 15, 2020	447,191	447,115
Norwegian Kroner-denominated Bonds due through January 2018	600,544	467,223
U.S. Dollar-denominated Term Loans due through 2021	2,196,444	2,432,374
U.S. Dollar-denominated Term Loan of Variable Interest Entity due October 2016	230,324	230,359
Euro-denominated Term Loans due through 2023	328,177	341,382
U.S. Dollar-denominated Unsecured Demand Loans due to Joint Venture Partners	13,282	13,282
<b>Total</b>	<b>5,700,290</b>	<b>5,559,714</b>
Less current portion	674,426	797,411
Long-term portion	5,025,864	4,762,303

As of March 31, 2013, the Company had 15 revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for aggregate borrowings of up to \$2.7 billion, of which \$0.9 billion was undrawn. Interest payments are based on LIBOR plus margins; at March 31, 2013 and December 31, 2012, the margins ranged between 0.45% and 4.5%. At March 31, 2013 and December 31, 2012, the three-month LIBOR was 0.28% and 0.31%, respectively. The total amount available under the Revolvers reduces by \$692.1 million (remainder of 2013), \$718.7 million (2014), \$222.5 million (2015), \$342.5 million (2016), \$445.0 million (2017) and \$321.0 million (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 55 of the Company's vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts.

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

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

Teekay Offshore has 211.5 million in Norwegian Kroner (or *NOK*) senior unsecured bonds that mature in November 2013 in the Norwegian bond market. As at March 31, 2013, the carrying amount of the bonds was \$36.2 million. The bonds are listed on the Oslo Stock Exchange. Interest payments on the bonds are based on NIBOR plus a margin of 4.75%. Teekay Offshore entered into a cross currency swap to swap the interest payments from NIBOR plus a margin of 4.75% into LIBOR plus a margin of 5.04%, and lock in the transfer of the principal amount at \$34.7 million upon maturity in exchange for NOK 211.5 million. Teekay Offshore also entered into an interest rate swap to swap the interest payments from LIBOR to a fixed rate of 1.12%. The floating LIBOR rate receivable from the interest rate swap is capped at 3.5%, which effectively results in a fixed rate of 1.12% unless LIBOR exceeds 3.5%, in which case Teekay Offshore's related interest rate effectively floats at LIBOR, but reduced by 2.38% (see note 14). In January 2013, Teekay Offshore repurchased NOK 388.5 million of the original NOK 600 million bond issue at a premium in connection with the issuance of NOK 1.3 billion in senior unsecured bonds. The Company recorded a loss in relation to this repurchase of \$1.8 million in its consolidated statements of (loss) income. In connection with this repurchase of bonds, Teekay Offshore terminated a similar notional amount of the related cross currency swap (see Note 14).

During 2012, Teekay Offshore, Teekay LNG and Teekay issued in the Norwegian bond market a total of NOK 2 billion of senior unsecured bonds that mature between October 2015 and May 2017. As at March 31, 2013, the total carrying amount of the bonds was \$342.0 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin, which ranges from 4.75% to 5.75%. The Company entered into cross currency rate swaps to swap all interest and principal payments of the bonds into U.S. dollars (or *U.S. Dollars*), with the interest payments fixed at rates ranging from 5.52% to 7.49%, and the transfer of principal fixed at \$349.2 million upon maturity in exchange for NOK 2 billion (see Note 14).

In January 2013, Teekay Offshore issued in the Norwegian bond market NOK 1.3 billion in senior unsecured bonds. The bonds were issued in two tranches maturing in January 2016 (NOK 500 million) and January 2018 (NOK 800 million). As at March 31, 2013, the carrying amount of the bonds was \$222.3 million. Teekay Offshore will apply to list the bonds on the Oslo Stock Exchange. Interest payments on the tranche maturing in 2016 are based on NIBOR plus a margin of 4.00%. Interest payments on the tranche maturing in 2018 are based on NIBOR plus a margin of 4.75%. Teekay

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Offshore entered into cross currency rate swaps to swap all interest and principal payments into U.S. Dollars, with interest payments fixed at a rate of 4.80% on the tranche maturing in 2016 and 5.93% on the tranche maturing in 2018 and the transfer of the principal amount fixed at \$89.7 million upon maturity in exchange for NOK 500 million on the tranche maturing in 2016 and fixed at \$143.5 million upon maturity in exchange for NOK 800 million on the tranche maturing in 2018 (see Note 14).

As of March 31, 2013, the Company had 17 U.S. Dollar-denominated term loans outstanding, which totaled \$2.2 billion (December 31, 2012 \$2.4 billion). Certain of the term loans with a total outstanding principal balance of \$316.9 million as at March 31, 2013 (December 31, 2012 \$328.0 million) bear interest at a weighted-average fixed rate of 5.3% (December 31, 2012 5.3%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At March 31, 2013 and December 31, 2012, the margins ranged between 0.3% and 3.25%, and 0.3% and 4.0%, respectively. At March 31, 2013 and December 31, 2012, the three-month LIBOR was 0.28% and 0.31%, respectively. The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and 16 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 35 (December 31, 2012 36) of the Company's vessels, together with certain other security. In addition, at March 31, 2013, all but \$104.3 million (December 31, 2012 \$107.0 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

The *Voyageur Spirit* FPSO unit has been consolidated by the Company effective November 30, 2011, as the *Voyageur Spirit* has been determined to be a VIE and the Company has been determined to be the primary beneficiary (see Note 3a). As a result, the Company has included the *Voyageur Spirit*'s outstanding U.S. Dollar-denominated term loan (*VIE term loan*), which, as at March 31, 2013, totaled \$230.3 million (December 31, 2012 \$230.4 million). Interest payments on the VIE term loan are based on LIBOR plus a margin of 2.95% and are paid quarterly. The VIE term loan is collateralized by a first-priority mortgage on the *Voyageur Spirit*, together with certain other security. The Company has guaranteed the repayment of the existing credit facility.

The Company has two Euro-denominated term loans outstanding, which, as at March 31, 2013, totaled 256.0 million Euros (\$328.2 million) (December 31, 2012 258.8 million Euros (\$341.4 million)). The Company is repaying the loans with funds generated by two Euro-denominated, long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus a margin. At March 31, 2013 and December 31, 2012, the margins ranged between 0.6% and 2.25% and the one-month EURIBOR at March 31, 2013 was 0.1% (December 31, 2012 0.1%). The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023 and are collateralized by first-priority mortgages on two of the Company's vessels, together with certain other security, and are guaranteed by a subsidiary of Teekay.

Both Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Company's NOK-denominated bonds, the Company's Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Company's cross currency swaps, the Company recognized a foreign exchange gain of \$2.2 million (2012 \$15.8 million loss) during the three months ended March 31, 2013.

The Company has one U.S. Dollar-denominated loan outstanding owing to a joint venture partner, which, as at March 31, 2013, totaled \$13.3 million (2012 \$13.3 million). Interest payments on the loan are based on a fixed interest rate of 4.84%. This loan is repayable on demand no earlier than February 27, 2027.

The weighted-average effective interest rate on the Company's aggregate long-term debt as at March 31, 2013 was 2.8% (December 31, 2012 2.6%). This rate does not include the effect of the Company's interest rate swap agreements (see Note 14).

Among other matters, the Company's long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and five loan agreements require the maintenance of vessel market value to loan ratios. As at March 31, 2013, these ratios ranged from 112.0% to 281.0% compared to their minimum required ratios of 105% to 115%, respectively. The vessel values used in these ratios are the appraised values prepared by the Company based on second hand sale and purchase market data. A further delay in the recovery of the conventional tanker market and a weakening of the LNG/LPG carrier market could negatively affect the ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at March 31, 2013 and December 31, 2012, this amount was \$100.0 million. Most of the loan agreements also require that the Company maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at

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least six months to maturity, in amounts ranging from 5% to 7.5% of total debt. As at March 31, 2013, this aggregate amount was \$319.6 million (December 31, 2012 \$319.1 million).

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to March 31, 2013, are \$612.8 million (remainder of 2013), \$1.2 billion (2014), \$437.5 million (2015), \$460.6 million (2016), \$984.6 million (2017) and \$2.0 billion (thereafter).

As at March 31, 2013, the Company was in compliance with all covenants required by its credit facilities and other long-term debt.

### **8. Capital Stock**

The authorized capital stock of Teekay at March 31, 2013 and December 31, 2012 was 25 million shares of Preferred Stock, with a par value of \$1 per share, and 725 million shares of Common Stock, with a par value of \$0.001 per share. As at March 31, 2013, Teekay had no shares of Preferred Stock issued. During the three months ended March 31, 2013, the Company issued 0.5 million shares of Common Stock upon the exercise of stock options, restricted stock units and restricted stock awards.

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. As at March 31, 2013, Teekay had repurchased approximately 5.2 million shares of Common Stock for \$162.3 million pursuant to such authorizations. As at March 31, 2013, the total remaining amount under the share repurchase authorization was \$37.7 million.

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During March 2013, the Company granted 72,810 stock options with an exercise price of \$34.07 per share, 158,957 restricted stock units with a fair value of \$5.4 million, 54,773 performance shares with a fair value of \$2.3 million and 26,412 shares of restricted stock with a fair value of \$0.9 million to certain of the Company's employees and directors. Each stock option has a ten-year term and vests equally over three years from the grant date. Each restricted stock unit and performance share is equal in value to one share of the Company's common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date and the performance shares vest three years from the grant date. Upon vesting, the value of the restricted stock units and performance shares are paid to each grantee in the form of shares. The number of performance share units that vest will range from zero to a multiple of the original number granted, based on certain performance and market conditions.

The weighted-average grant-date fair value of stock options granted during March 2013 was \$10.54 per option. The fair value of each stock option granted was estimated on the grant date using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the stock options granted: expected volatility of 53.7%; expected life of five years; dividend yield of 4.8%; risk-free interest rate of 0.8%; and estimated forfeiture rate of 12%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

**9. Commitments and Contingencies****a) Vessels Under Construction**

As at March 31, 2013, the Company was committed to the construction of four shuttle tankers, two LNG carriers and one FPSO unit for a total cost of approximately \$1.8 billion, excluding capitalized interest and other miscellaneous construction costs. The four shuttle tankers are scheduled for delivery in mid-to-late 2013, the two LNG carriers are scheduled for delivery in 2016, and the FPSO unit is scheduled to be delivered in the first half of 2014. As at March 31, 2013, payments made towards these commitments totaled \$706.2 million (excluding \$35.4 million of capitalized interest and other miscellaneous construction costs). As at March 31, 2013, the remaining payments required to be made under these newbuilding contracts were \$361.0 million (remainder of 2013), \$362.7 million (2014), \$57.9 million (2015), and \$270.2 million (2016).

**b) Joint Ventures**

As at March 31, 2013, Exmar LPG BVBA was committed to the construction of eight mid-sized gas carriers for a total cost of \$364.5 million, excluding capitalized interest and other miscellaneous construction costs. The eight newbuildings are scheduled for delivery between 2014 and 2016. As at March 31, 2013, payments made by Exmar LPG BVBA towards these commitments totaled \$28.8 million. As at March 31, 2013, the remaining payments required to be made by Exmar LPG BVBA under these newbuilding contracts was \$23.7 million in 2013, \$172.8 million in 2014, \$69.6 million in 2015, and \$69.6 million in 2016. Teekay LNG owns a 50% interest in Exmar LPG BVBA.

In September 2010, Teekay Tankers entered into a joint venture arrangement (the *Joint Venture*) with Wah Kwong Maritime Transport Holdings Limited (or *Wah Kwong*) to have a Very Large Crude Carrier (or *VLCC*) newbuilding constructed, managed and chartered to third parties. Teekay Tankers has a 50% economic interest in the Joint Venture, which is jointly controlled by Teekay Tankers and Wah Kwong. The VLCC has an estimated purchase price of approximately \$98 million (of which Teekay Tankers' 50% portion is \$49 million), excluding capitalized interest and other miscellaneous construction costs. The vessel is expected to be delivered during the second quarter of 2013.

As at March 31, 2013, the remaining payments required to be made under this newbuilding contract, including Wah Kwong's 50% share, was \$34.3 million in 2013. As at March 31, 2013, the Joint Venture had signed an agreement with a financial institution for a loan of \$68.6 million.

The loan is secured by a first priority statutory mortgage over the VLCC and guaranteed by both Teekay Tankers and Wah Kwong. As a result, Teekay Tankers' exposure to this loan is limited to the 50% guarantee to the loan which is repayable with 32 quarterly installments of \$1.4 million each commencing three months after the initial post-delivery drawdown date and a balloon payment of \$22.6 million at its maturity. In addition, the Company and Wah Kwong have each agreed to finance 50% of the costs to acquire the VLCC that are not financed with commercial bank financing. As at March 31, 2013, the Company had advanced \$9.8 million to the joint venture in the form of a non-interest bearing and unsecured loan and invested an additional \$3.4 million to the joint venture which represents the Company's 50% portion of the payments required to the shipyard during the construction stage that were not financed with commercial bank financing.

**c) Purchase Obligation**

As at March 31, 2013, Teekay was committed to fund the remaining upgrade costs of the *Voyageur Spirit* in connection with the Sevan acquisition. As at March 31, 2013, payments made towards these remaining upgrade costs totaled \$140.8 million and the remaining payments required to be made were \$1.2 million. Also, Teekay is in negotiations with the Nymo shipyard in Norway regarding an additional amount of up to \$17 million in regards to the *Voyageur Spirit* upgrade costs. In September 2012, the *Voyageur Spirit* completed its upgrade at the Nymo shipyard and arrived at the Huntington Field in the U.K. sector of the North Sea in October 2012. In addition to the upgrade costs, in November 2012, Teekay prepaid \$92.4 million of the *Voyageur Spirit* purchase price. First oil occurred in April 2013 after the remaining upgrades were completed, at which time the *Voyageur Spirit* commenced its five-year charter with E.ON for the FPSO unit. In May 2013, Teekay completed the acquisition of the *Voyageur Spirit* FPSO unit and immediately thereafter the FPSO unit was acquired by Teekay Offshore for \$540 million.

In November 2012, Teekay Offshore agreed to acquire a 2010-built HiLoad Dynamic Positioning (or *DP*) unit from Remora AS (or *Remora*), a Norway-based offshore marine technology company, for a total purchase price of approximately \$55 million including modification costs. The HiLoad DP unit is a self-propelled dynamic positioning system that attaches to and keeps conventional tankers in position when loading from offshore installations. The transaction is subject to finalizing a ten-year time-charter contract with Petroleo Brasileiro SA in Brazil. The acquisition of the HiLoad DP unit is expected to be completed by June 30, 2013 and the unit is expected to commence operating at its full time-charter rate in early 2014 once modifications, delivery of the DP unit to Brazil, and operational testing have been completed. As part of the transaction, Teekay has also agreed to invest approximately \$4.4 million to acquire a 49.9% ownership interest in a recapitalized Remora. Under the terms of an agreement between Remora and Teekay Offshore, Teekay Offshore has the right of first refusal to acquire future HiLoad projects developed by Remora.

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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, 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.

On November 13, 2006, Teekay Offshore's shuttle tanker the *Navion Hispania* collided with the *Njord Bravo*, an FSO unit, while preparing to load an oil cargo from the *Njord Bravo*. The *Njord Bravo* services the Njord field, which is operated by Statoil Petroleum AS (or *Statoil*) and is located off the Norwegian coast. At the time of the incident, Statoil was chartering the *Navion Hispania* from the Company. The *Navion Hispania* and the *Njord Bravo* both incurred damages as a result of the collision. In November 2007, Navion Offshore Loading AS (or *NOL*), the Company's subsidiary, and two other subsidiaries of the Company, were named as co-defendants in a legal action filed by Norwegian Hull Club (the hull and machinery insurers of the *Njord Bravo*) and various licensees in the Njord field. The Plaintiffs sought damages for vessel repairs, expenses for a replacement vessel and other amounts related to production stoppage on the field, totaling NOK 213,000,000 (approximately \$36.4 million). The Stavanger District Court found that NOL is liable for damages except for damages related to certain indirect or consequential losses. The court also found that Statoil ASA is liable to NOL for the same amount of damages. The parties have appealed the decision. As a result of the judgment, as at March 31, 2013 and December 31, 2012, the Company recognized a liability of NOK 76,000,000 (approximately \$13.0 million, which is a reduced amount in accordance with the court's decision to exclude a large part of the indirect or consequential losses) to the Plaintiffs and a corresponding receivable from Statoil recorded in other long-term liabilities and other assets, respectively. The Company believes the likelihood of any losses relating to the claim is remote. The Company believes that the charter contract relating to the *Navion Hispania* requires that Statoil be responsible and indemnify the Company for all losses relating to the damage to the *Njord Bravo*. The Company also maintains protection and indemnity insurance for damages to the *Navion Hispania* and insurance for collision-related costs and claims. The Company believes that these insurance policies will cover the costs related to this incident, including any costs not indemnified by Statoil, subject to standard deductibles. Teekay has agreed to indemnify Teekay Offshore for any losses it may incur in connection with this incident.

Teekay Nakilat Corporation (or *Teekay Nakilat*), a subsidiary of Teekay LNG, is the lessee under 30-year capital lease arrangements with a third party for the three RasGas II LNG Carriers (or the *RasGas II Leases*). The UK taxing authority (or *HMRC*) has been urging our lessor, as well as other lessors under capital lease arrangements that have tax benefits similar to the ones provided by the *RasGas II Leases*, to terminate such finance lease arrangements, and has in other circumstances challenged the use of similar structures. As a result, the lessor has requested that the Teekay Nakilat Joint Venture enter into negotiations to terminate the *RasGas II Leases*. The Teekay Nakilat Joint Venture has declined this request as it does not believe that HMRC would be able to successfully challenge the availability of the tax benefits of these leases to the lessor. This assessment is partially based on a January 2012 court decision, regarding a similar financial lease of an LNG carrier, that ruled in favor of the taxpayer. However, the HMRC is appealing that decision and the appeal is expected to be heard in 2013. If the HMRC were able to successfully challenge the *RasGas II Leases*, the Teekay Nakilat Joint Venture could be subject to significant costs associated with the termination of the lease or increased lease payments to compensate the lessor for the lost tax benefits. Teekay LNG estimates its 70% share of the potential exposure to be approximately \$29 million, exclusive of potential financing and interest rate swap termination costs. The lessor for the three vessels chartered out by Teekay Nakilat Joint Venture has communicated to the joint venture that the credit rating of the bank (or *LC Bank*) that is providing the letter of credit to Teekay Nakilat Joint Venture's lease has been downgraded. As a result, the lessor has indicated a potential increase in the lease rentals over the remaining term of the *RasGas II Leases* and that an estimated \$12 million additional amount of cash may need to be placed on deposit by the Teekay Nakilat Joint Venture. The Teekay Nakilat Joint Venture has engaged external legal counsel to assess these claims. Teekay LNG's 70% share of the present value of the potential lease rental increase claim is approximately \$10 million; however, the final amount is dependent on external legal counsel's review. The Teekay Nakilat Joint Venture is also looking at other alternatives to mitigate the impact of the downgrade to the LC Bank's credit rating.

On December 7, 2011, the Petrojarl Banff FPSO unit (or *Banff*), which operates on the Banff field in the U.K. sector of the North Sea, suffered a severe storm event and sustained damage to its moorings, turret and subsea equipment, which necessitated the shutdown of production on the unit. Due to the damage, the Company declared force majeure under the customer contract on December 8, 2011 and the *Banff* FPSO unit commenced a period of off-hire which is currently expected to continue until the fourth quarter of 2013 while repairs are assessed and completed. The Company does not have off-hire insurance covering the *Banff* FPSO. After the repairs and upgrades are completed, the *Banff* FPSO unit is expected to resume production on the Banff field, where it is expected to remain under contract until the end of 2018.



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The Company expects that repair costs to the *Banff* FPSO unit and equipment and costs associated with the emergency response to prevent loss or further damage during the December 7, 2011 storm event will be primarily reimbursed through its insurance coverage subject to a \$750,000 deductible and the other terms and conditions of the applicable policies. In addition, the Company will also incur certain capital upgrade costs for the *Banff* FPSO unit and the *Apollo Spirit* related to upgrades to the mooring system required by the relevant regulatory authorities due to the extreme weather and sea states experienced during the December 7, 2011 storm. The *Apollo Spirit* was operating on the Banff field as a storage tanker and is expected to return to the Banff field at the same time as the *Banff* FPSO. The total of these capital upgrade costs is expected to be approximately \$90 million. The recovery of the capital upgrade costs from the charterer is subject to commercial negotiations or, failing agreement, the responsibility for these costs will be determined by an expedited arbitration procedure already agreed to by the parties. Any capital upgrade costs not recovered from the charterer will be capitalized to the vessel cost.

### 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 owner of the 33% interest holds a put option which, if exercised, would obligate Teekay Offshore to purchase the non-controlling interest owner's interest 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 March 31, 2013.

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**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.

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

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see Note 11 in the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2012. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis as well as the estimated fair value of the Company's financial instruments that are not accounted for at fair value on a recurring basis.

	Fair Value Hierarchy Level	March 31, 2013		December 31, 2012	
		Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$	Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$
<b>Recurring</b>					
Cash and cash equivalents, restricted cash, and marketable securities	Level 1	1,018,217	1,018,217	1,178,118	1,178,118
<b>Derivative instruments (note 14)</b>					
Interest rate swap agreements - assets	Level 2	145,082	145,082	165,688	165,688
Interest rate swap agreements - liabilities	Level 2	(626,276)	(626,276)	(667,825)	(667,825)
Cross currency interest swap agreement	Level 2	(24,236)	(24,236)	13,886	13,886
Foreign currency contracts	Level 2	(783)	(783)	2,885	2,885
<b>Non-recurring</b>					
Vessels and equipment	Level 2			287,983	287,983
Vessels held for sale	Level 2			22,364	22,364
<b>Other</b>					
Investment in term loans and interest receivable	Level 3	188,007	185,641	188,756	186,048
Loans to equity accounted investees and joint venture partners - Current	Level 3	145,374	145,374	139,183	139,183
Loans to equity accounted investees and joint venture partners - Long-term	(1)	103,916	(1)	67,720	(1)
Long-term debt - public (note 7)	Level 1	(1,047,735)	(1,095,296)	(914,338)	(949,326)
Long-term debt - non-public (note 7)	Level 2	(4,652,555)	(4,347,937)	(4,645,376)	(4,329,117)

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- (1) In these consolidated financial statements, the Company's loans to and equity investments in equity accounted investees form the aggregate carrying value of the Company's interests in entities accounted for by the equity method. In addition, the loans to joint venture partners together with the joint venture partner's equity investment in joint ventures form the net aggregate carrying value of the Company's interest in the joint ventures. The fair value of the individual components of such aggregate interests is not determinable.

### b. Financing Receivables

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

Class of Financing Receivable	Credit Quality Indicator	Grade	March 31, 2013 \$	December 31, 2012 \$
Direct financing leases	Payment activity	Performing	433,315	436,601
Other loan receivables				
Investment in term loans and interest receivable	Collateral	Performing <sup>(1)</sup>	122,092	119,385
Investment in term loans and interest receivable	Collateral	<sup>(2)</sup>	65,915	69,371
Loans to equity accounted investees and joint venture partners <sup>(3)</sup>	Other internal metrics	Performing	249,290	206,903
Long term receivable included in other assets	Payment activity	Performing	3,371	1,704
			873,983	833,964

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

- (1) The borrower has defaulted on its interest payments and obligations under the term loans during the first quarter of 2013. The Company expects it will recover all amounts due under the loan agreements from cash flow generated by the borrower and the Company realizing the value of the primary collateral, which are two 2010-built VLCCs.
- (2) As of March 31, 2013, the estimated fair value of the asset that has been pledged as collateral for the loan is lower than the principal amount of the loan and unpaid interest, and the amounts receivable have been written down to the present value of expected future cash flows (see Note 6b). The borrower did not pay in full the January 31, 2013 interest payment. Based on a review of the borrower's financial condition, it is expected that the amount of the recovery of amounts due under the loan agreement will be dependent upon cash flow generated by the borrower, financial support from the borrower's ultimate parent company and the Company realizing the value of the primary collateral, a 2011-built VLCC.
- (3) Teekay LNG owns a 99% interest in Teekay Tangguh, which owns a 70% interest in Teekay BLT Corporation (or *Teekay Tangguh Subsidiary*). During the year ended December 31, 2012, one of Teekay LNG's joint venture partner's parent company, PT Berlian Laju Tanker (or *BLT*), suspended trading on the Jakarta Stock Exchange and entered into a court-supervised restructuring under the Suspension of Payment process in Indonesia, in order to restructure its debts. The Company believes the loans to BLT and Teekay LNG's joint venture partner, BLT LNG Tangguh Corporation, totaling \$24.0 million as at March 31, 2013 (December 31, 2012 \$24.0 million), are collectible given the expected cash flows anticipated to be generated by the Teekay Tangguh Subsidiary that can be used to repay the loan and given the underlying collateral securing the loans to BLT.

**11. Restructuring Charges**

During the three months ended March 31, 2013 and 2012, the Company incurred \$2.1 million and \$nil of restructuring costs, respectively. The restructuring charges primarily relate to reorganization of the Company's marine operations to create better alignment with its conventional tanker business unit and its three publicly-listed subsidiaries and a lower cost organization. The Company expects to incur further restructuring charges of approximately \$2.8 million associated with this reorganization.

At March 31, 2013 and December 31, 2012, \$2.5 million and \$3.4 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

**12. Other Income**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	\$	\$
Gain on sale of other assets		2,217
Loss on bond repurchase	(1,759)	
Volatile organic compound emission plant lease income	158	428
Loss on sale of marketable securities		(420)
Miscellaneous income	6,841	118
Other income	5,240	2,343

**13. Accumulated Other Comprehensive Loss**

As at March 31, 2013 and December 31, 2012, the Company's accumulated other comprehensive loss consisted of the following components:

	March 31, 2013	December 31, 2012
	\$	\$
Unrealized (loss) gain on qualifying cash flow hedging instruments	(236)	341
Pension adjustments, net of tax recoveries	(14,790)	(16,253)
Unrealized loss on marketable securities	(926)	
Foreign exchange loss on currency translation	2,276	1,144
	(13,676)	(14,768)

#### 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. Certain of these foreign currency forward contracts are designated, for accounting purposes, as cash flow hedges of forecasted foreign currency expenditures.

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

As at March 31, 2013 the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (millions)	Average Forward Rate <sup>(1)</sup>	Fair Value / Carrying Amount of Asset (Liability)		Expected Maturity	
			Hedge \$	Non-hedge \$	2013 \$	2014 \$
			(in millions of U.S. Dollars)		(in millions of U.S. Dollars)	
Norwegian Kroner	632.9	5.83		(0.2)	90.6	18.0
Euro	4.9	0.76		(0.2)	6.5	
Canadian Dollar	4.1	1.00	(0.1)		4.1	
British Pound	5.8	0.64	(0.1)	(0.2)	9.0	
			(0.2)	(0.6)	110.2	18.0

(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 or U.S. Dollar floating interest based on LIBOR plus a margin. 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 2013 through 2018. In addition, the cross currency swaps due in 2018 economically hedges the interest rate exposure on the NOK-denominated bonds due in 2018. The Company has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK-denominated bonds due in 2013 through 2018. As at March 31, 2013, the Company was committed to the following cross currency swaps:

Notional Amount NOK	Notional Amount USD	Floating Rate Receivable		Floating Rate Payable		Fixed Rate Payable	Fair Value / Carrying Amount of Asset / (Liability)	Remaining Term (years)
		Reference Rate	Margin	Reference Rate	Margin			
211,500	34,700	NIBOR	4.75%	LIBOR	5.04%	<sup>(1)</sup>	1,513	0.7
700,000	122,800	NIBOR	4.75%			5.52%	(3,318)	2.5
500,000	89,700	NIBOR	4.00%			4.80%	(4,360)	2.8
600,000	101,400	NIBOR	5.75%			7.49%	(1,941)	3.8
700,000	125,000	NIBOR	5.25%			6.88%	(8,879)	4.1
800,000	143,500	NIBOR	4.75%			5.93%	(7,251)	4.8
							(24,236)	

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(1) LIBOR subsequently fixed at 1.1%, subject to a LIBOR rate receivable cap of 3.5% (see next section).

### 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. In addition, the Company holds interest rate swaps which exchange a payment of floating rate interest for a receipt of fixed interest in order to reduce the Company's exposure to the variability of interest income on its restricted cash deposits. As at March 31, 2013, the Company has not designated any of its interest rate swap agreements as cash flow hedges for accounting purposes.

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As at March 31, 2013, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt, restricted cash deposits and EURIBOR-based debt, whereby certain of the Company's floating-rate debt and restricted cash deposits were swapped with fixed-rate obligations or fixed-rate deposits:

	Interest Rate Index	Principal Amount \$	Fair Value / Carrying Amount of Asset / (Liability) \$	Weighted- Average Remaining Term (years)	Fixed Interest Rate (%) <sup>(1)</sup>
<b>LIBOR-Based Debt:</b>					
U.S. Dollar-denominated interest rate swaps <sup>(2)</sup>	LIBOR	410,499	(104,197)	23.8	4.9
U.S. Dollar-denominated interest rate swaps <sup>(3)</sup>	LIBOR	3,130,606	(483,493)	7.7	4.1
U.S. Dollar-denominated interest rate swaps <sup>(4)</sup>	LIBOR	98,500	(591)	0.7	1.1
<b>LIBOR-Based Restricted Cash Deposit:</b>					
U.S. Dollar-denominated interest rate swaps <sup>(2)</sup>	LIBOR	469,116	145,082	23.8	4.8
<b>EURIBOR-Based Debt:</b>					
Euro-denominated interest rate swaps <sup>(5)(6)</sup>	EURIBOR	328,177	(37,995)	11.2	3.1
		4,436,898	(481,194)		

(1) Excludes the margins the Company pays on its variable-rate debt, which, as of March 31, 2013, ranged from 0.3% to 4.5%.

(2) Principal amount reduces quarterly.

(3) Principal amount of \$200 million is fixed at 2.14%, unless LIBOR exceeds 6%, in which case the Company pays a floating rate of interest.

(4) The floating LIBOR rate receivable is capped at 3.5%, which effectively results in a fixed rate of 1.12% unless LIBOR exceeds 3.5%, in which case the Company's related interest rate effectively floats at LIBOR reduced by 2.38%.

(5) Principal amount reduces monthly to 70.1 million Euros (\$89.9 million) by the maturity dates of the swap agreements.

(6) Principal amount is the U.S. Dollar equivalent of 256.0 million Euros.

**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.

	Current Portion of Derivative Assets	Derivative Assets	Accrued Liabilities	Current Portion of Derivative Liabilities	Derivative Liabilities
<b>As at March 31, 2013</b>					
Derivatives designated as a cash flow hedge:					
Foreign currency contracts				(143)	(28)
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	622	34		(1,205)	(63)



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Interest rate swap agreements	16,927	123,724	(20,570)	(116,283)	(484,992)
Cross currency swap agreements	3,358		551	(151)	(27,994)
	20,907	123,758	(20,019)	(117,782)	(513,077)

**As at December 31, 2012**

Derivatives designated as a cash flow hedge:					
Foreign currency contracts	441			(1)	
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	2,506			(60)	
Interest rate swap agreements	16,927	144,247	(22,312)	(115,774)	(525,225)
Cross currency swap agreements	11,795	4,334	719		(2,962)
	31,669	148,581	(21,593)	(115,835)	(528,187)

As at March 31, 2013, the Company had multiple interest rate swaps and cross currency swaps with the same counterparty that are subject to the same master agreement. Each of these master agreements provides for the net settlement of all swaps subject to that master agreement through a single payment in the event of default or termination of any one swap. The fair value of these interest rate swaps are presented on a gross basis in the Company's consolidated balance sheets. As at March 31, 2013, these interest rate swaps and cross currency swaps had an aggregate fair value asset amount of \$146.6 million and an aggregate fair value liability amount of \$474.2 million.

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For the periods indicated, the following table presents the effective portion of gains (losses) on foreign currency forward contracts designated and qualifying as cash flow hedges that were (1) recognized in other comprehensive income (loss), (2) recorded in accumulated other comprehensive income (or *AOCI*) during the term of the hedging relationship and reclassified to earnings, and (3) recognized in the ineffective portion of gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

Balance Sheet (AOCI) Effective Portion	Three Months Ended March 31, 2013			Balance Sheet (AOCI) Effective Portion	Three Months Ended March 31, 2012		
	Effective	Ineffective Portion	Statement of Loss		Effective Portion	Ineffective Portion	Statement of Income
(532)	4	(74)	General and administrative expenses	2,821	1,003	(18)	General and administrative expenses
(532)	4	(74)		2,821	1,003	(18)	

Realized and unrealized (losses) gains 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) gains on non-designated derivative instruments in the consolidated statements of (loss) income. The effect of the (loss) gain on derivatives not designated as hedging instruments in the consolidated statements of (loss) income are as follows:

	Three Months Ended March 31,	
	2013	2012
	\$	\$
Realized (losses) gains relating to:		
Interest rate swap agreements	(30,352)	(30,416)
Foreign currency forward contracts	421	1,237
Foinaven embedded derivative		11,452
	(29,931)	(17,727)
Unrealized gains (losses) relating to:		
Interest rate swap agreements	19,204	17,135
Foreign currency forward contracts	(3,062)	8,792
Foinaven embedded derivative		(3,385)
	16,142	22,542
Total realized and unrealized (losses) gains on derivative instruments	(13,789)	4,815

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Realized gain on partial termination of cross-currency swap	6,800	
Realized gains	1,062	994
Unrealized (losses) gains	(37,954)	7,879
Total realized and unrealized (losses) gains on cross currency swaps	(30,092)	8,873

As at March 31, 2013, the Company's accumulated other comprehensive loss included \$0.2 million of unrealized losses on foreign currency forward contracts designated as cash flow hedges. As at March 31, 2013, the Company estimated, based on then current foreign exchange rates, that it would reclassify approximately \$0.2 million of net losses on foreign currency forward contracts from accumulated other comprehensive loss to earnings during the next 12 months.

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.

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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

**15. Income Tax (Expense) Recovery**

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

	Three Months Ended March 31,	
	2013	2012
	\$	\$
Current	(2,113)	3,834
Deferred	(387)	(266)
<b>Income tax (expense) recovery</b>	<b>(2,500)</b>	<b>3,568</b>

The following reflects the changes in the Company's unrecognized tax benefits, recorded in other long-term liabilities, from December 31, 2012 to March 31, 2013:

Balance of unrecognized tax benefits as at January 1, 2013	\$ 29,364
Decrease for positions taken in prior years	(136)
Increase for positions related to the current period	1,123
Decrease related to statute of limitations	(245)
<b>Balance of unrecognized tax benefits as at March 31, 2013</b>	<b>\$ 30,106</b>

The majority of the net increase for positions for the three months ended March 31, 2013 relates to potential tax on freight income.

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

**16. (Loss) Income Per Share**

	Three Months Ended March 31,	
	2013	2012
	\$	\$
Net (loss) income attributable to stockholders of Teekay Corporation	(6,136)	1,066
Weighted average number of common shares	69,888,279	68,855,860
Dilutive effect of stock-based compensation		1,290,726
Common stock and common stock equivalents	69,888,279	70,146,586

(Loss) earnings per common share:		
- Basic	(0.09)	0.02
- Diluted	(0.09)	0.02

The anti-dilutive effect attributable to outstanding stock-based awards is excluded from the calculation of diluted loss per common share. For the three months ended March 31, 2013, the anti-dilutive effect attributable to outstanding stock-based awards was 3.2 million shares.

#### 17. Supplemental Cash Flow Information

During the three months ended March 31, 2012, the 50% joint venture with Odebrecht (or *KG Joint Venture*) purchased the assets related to the Baúna and Piracaba (previously named Tiro and Sidon) FPSO project, including the then partially constructed *Cidade de Itajai* (or *Itajai*) FPSO unit, and the customer contracts from the Company for approximately \$179 million. The purchase price was financed 80% with borrowings and the balance of the purchase price was financed with equity contributions by each of the joint venture partners. The Company's initial equity contribution was funded by contributing the partially constructed FPSO unit and the customer contracts. This initial equity contribution has been treated as a non-cash transaction in the Company's consolidated statement of cash flows.

#### 18. Subsequent Events

- a) In April 2013, Teekay Tankers entered into agreement with STX Offshore & Shipbuilding Co., Ltd (or *STX*) of South Korea for the construction of four, fuel-efficient 113,000 dead-weight tonne Long Range 2 (or *LR2*) product tanker newbuildings for a fully-built-up cost of approximately \$47 million each. The agreement with STX also includes fixed-price options for up to 12 additional LR2 newbuildings, four of which are exercisable up to and including each of the following months: October 2013, April 2014 and October 2014, respectively. Teekay Tankers intends to finance the installment payments with its existing liquidity and expects to secure long-term debt financing for the vessels prior to their scheduled deliveries in late-2015 and early-2016.

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

- b) In April 2013, Teekay Offshore issued 2.1 million common units in a private placement to an institutional investor for net proceeds of approximately \$60.0 million, excluding the General Partner's 2% proportionate capital contribution of \$1.2 million. Upon completion of the private placement, Teekay Offshore had 82.2 million common units outstanding. Teekay Offshore will use the proceeds from the private placement to partially finance four newbuilding shuttle tanker installments and for general corporate purposes. As a result of this private placement, Teekay's ownership of Teekay Offshore was reduced to 28.7% (including the Company's 2% general partner interest). Teekay maintains control of Teekay Offshore by virtue of its control of the general partner and will continue to consolidate the subsidiary.
- c) In April 2013, Teekay Offshore issued 6.0 million 7.25% Series A Cumulative Redeemable Preferred Units in a public offering for net proceeds of \$144.9 million. Teekay Offshore expects to use the net proceeds from the public offering for general corporate purposes, including the partial financing of newbuilding installments, capital conversion projects and the acquisitions of vessels that Teekay may offer to Teekay Offshore. Pending the application of funds for these purposes, Teekay Offshore repaid a portion of its outstanding debt under two of its revolving credit facilities.
- d) In April 2013, the *Voyageur Spirit* FPSO unit began production and on May 2, 2013, Teekay completed the acquisition of the *Voyageur Spirit* FPSO unit and immediately thereafter, Teekay Offshore acquired the unit from Teekay for a purchase price of \$540 million. The unit operates on the Huntington Field in the North Sea under a five-year contract with E.ON, plus extension options. Teekay Offshore financed the acquisition with a new \$330 million debt facility secured by the unit, a portion of the proceeds from a public offering completed in September 2012 and a \$40 million equity private placement of common units to Teekay which was completed in May 2013. Upon completion of the private placement to Teekay, Teekay Offshore had 83.6 million common units outstanding. Following the private placement, Teekay holds a 29.9% interest in Teekay Offshore, including the Company's 2% general partner interest. Teekay maintains control of Teekay Offshore by virtue of its control of the general partner and will continue to consolidate the subsidiary.
- e) In May 2013, Teekay Offshore finalized the ten-year charter contract, plus extension options, with Salamander Energy plc (or *Salamander*) to supply an FSO unit in Asia. Teekay Offshore intends to convert its 1993-built shuttle tanker, the *Navion Clipper*, into an FSO unit for an estimated fully built-up cost of approximately \$50 million. The unit is expected to commence its contract with Salamander in the third quarter of 2014.
- f) In May 2013, Teekay Offshore entered into an agreement with Statoil, on behalf of the field license partners, to provide an FSO unit for the Gina Krog oil and gas field located in the North Sea. The contract will be serviced by a new FSO unit converted from the 1995-built shuttle tanker, *Randgrid*, which Teekay Offshore currently owns through a 67% owned subsidiary. The FSO conversion project is expected to be completed for a gross capital cost of approximately \$260 million, including amounts reimbursable upon delivery of the unit relating to installation and mobilization costs, and the cost of acquiring the remaining 33% ownership interest in the *Randgrid* shuttle tanker. Following completion in 2017, the newly converted FSO unit will commence operations under a 3-year firm period time-charter contract to Statoil, which includes 12 additional one-year extension options.
- g) In May 2013, Teekay LNG announced entering into an equity distribution agreement to issue common units representing limited partner interests with an aggregate offering amount of up to \$100 million. Teekay LNG intends to use the net proceeds from the sales under this program for general corporate purposes, which may include, among other things, repaying or refinancing all or a portion of its outstanding indebtedness and funding future working capital requirements, capital expenditures or acquisitions.

h)

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In May 2013, Teekay Offshore agreed to acquire a 50% interest in the *Itajai* FPSO unit from Teekay for a purchase price of approximately \$204 million. The acquisition was completed on June 10, 2013. The *Itajai* FPSO is operating on the Baúna and Piracaba (previously named Tiro and Sidon) fields in the Santos Basin offshore Brazil since February 2013 under a nine-year fixed-rate time-charter contract, plus extension options, with Petroleo Brasileiro SA (*Petrobras*). The remaining 50% interest in the *Itajai* FPSO unit is owned by Brazilian-based Odebrecht Oil & Gas S.A. (a member of the Odebrecht group) (or *Odebrecht*).

- i) In May 2013, Teekay Offshore announced entering into an equity distribution agreement to issue common units representing limited partner interests with an aggregate offering amount of up to \$100 million. Teekay Offshore intends to use the net proceeds from the sales under this program for general corporate purposes, which may include, among other things, repaying or refinancing all or a portion of its outstanding indebtedness and funding future working capital requirements, capital expenditures, including installments on newbuilds and expenditures on asset conversions, or acquisitions.
  
- j) In June 2013, Teekay LNG entered into two, five-year time-charter contracts with Cheniere Marketing, LLC (or *Cheniere*) to provide LNG transportation services. The fixed-rate time-charter contracts will be serviced by the two 173,400 cubic meter LNG carrier newbuildings ordered by Teekay LNG in December 2012. The newbuildings are currently under construction by Daewoo Shipbuilding & Marine Engineering of South Korea and are scheduled to be delivered in the first half of 2016.

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**TEEKAY CORPORATION AND SUBSIDIARIES**

**MARCH 31, 2013**

**PART I FINANCIAL INFORMATION**

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in Item 1 Financial Statements of this Report on Form 6-K and with our audited consolidated financial statements contained in Item 18 Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 5 Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the year ended December 31, 2012.

References to *Teekay* mean Teekay Corporation, which is incorporated under the laws of the Republic of the Marshall Islands. References to the *Company* mean Teekay together with its wholly owned or controlled subsidiaries. Unless the context requires otherwise, references to *we*, *our* or *us* are references to Teekay Corporation and its subsidiaries.

**SIGNIFICANT DEVELOPMENTS IN 2013**

**Acquisition of LPG carriers by Teekay LNG**

In February 2013, our subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) entered into a joint venture agreement with Belgium-based Exmar NV (or *Exmar*) to own and charter-in liquefied petroleum gas (or *LPG*) carriers with a primary focus on the mid-size gas carrier segment. The joint venture entity, called Exmar LPG BVBA, took economic effect as of November 1, 2012 and includes 19 owned LPG carriers (including eight newbuildings scheduled for delivery between 2014 and 2016 and taking into effect the sale of the *Donau* LPG carrier in April 2013) and five chartered-in LPG carriers (or the *Exmar LPG Carriers*). For Teekay LNG's 50% ownership interest in the joint venture, including newbuilding payments made prior to the November 1, 2012 economic effective date of the joint venture, Teekay LNG invested approximately \$134 million in exchange for equity and a shareholder loan and assumed approximately \$108 million of its pro rata share of the existing debt and lease obligations as of the economic effective date. These debt and lease obligations are secured by certain vessels in the Exmar LPG BVBA fleet. Exmar will continue to commercially and technically manage and operate the vessels. Since control of Exmar LPG BVBA is shared jointly between Exmar and Teekay LNG, Teekay LNG accounts for Exmar LPG BVBA using the equity method.

**Teekay Tankers Newbuilding Order**

In April 2013, our subsidiary Teekay Tankers Ltd. (or *Teekay Tankers*) entered into an agreement with STX Offshore & Shipbuilding Co., Ltd (or *STX*) of South Korea for the construction of four, fuel-efficient 113,000 dead-weight tonne Long Range 2 (or *LR2*) product tanker newbuildings for a fully built up cost of approximately \$47 million each. The agreement with STX also includes fixed-price options for the construction up to 12 additional LR2 newbuildings, four of which are exercisable up to and including each of the following months: October 2013, April 2014 and October 2014, respectively. Upon delivery, it is expected that the four vessels will operate in our Taurus Tankers LR2 Pool. The agreement with STX also includes favorable payment terms, with the majority of the purchase price due upon delivery. Teekay Tankers intends to finance the installment payments for the four newbuilding vessels with its existing liquidity and to secure long-term debt financing for the vessels prior to their scheduled deliveries in late-2015 and early-2016. STX is currently undergoing a voluntary corporate restructuring with its lenders. Teekay Tankers is not required to make any installment payments to STX for the LR2 newbuildings until STX provides Teekay Tankers with adequate financial guarantees (or *refund guarantees*) as security for the installment payments, which STX is to provide to Teekay Tankers by June 17, 2013 under the current terms of the agreement. The first installment payment equal to 10% of the contract price in respect of the initial four vessels is due and payable within five business days after Teekay Tankers receive refund guarantees from STX. In the event that the refund guarantees are not provided to Teekay Tankers by June 17, 2013, Teekay Tankers has the option to terminate the agreement. Please read Item 1 Financial Statements: Note 18a Subsequent Events.

**Two Time-Charter Contracts Entered into by Teekay LNG**

In June 2013, Teekay LNG entered into two, five-year time-charter contracts with Cheniere Marketing, LLC (or *Cheniere*) to provide them with LNG transportation services. The fixed-rate time-charter contracts and will be serviced by the two 173,400 cubic meter LNG carrier newbuildings ordered by Teekay LNG in December 2012. The newbuildings are currently under construction by Daewoo Shipbuilding & Marine Engineering of South Korea and are scheduled to be delivered in the first half of 2016. Please read Item 1 Financial Statements: Note



18j Subsequent Events.

### Recent Offshore Business Developments

In November 2011, we agreed to acquire from Sevan Marine ASA (or *Sevan*) the *Voyageur Spirit* (formerly known as the *Sevan Voyageur*) floating, production, storage and offloading (or *FPSO*) unit upon the completion of certain upgrades. In June 2012, we offered the *Voyageur Spirit* to our subsidiary Teekay Offshore Partners L.P. (or *Teekay Offshore*) for a purchase price of approximately \$540 million. In September 2012, we entered into an agreement to sell, subject to certain conditions, the *Voyageur Spirit* to Teekay Offshore for such price following its commencement of operations under a long-term charter contract with E.ON Ruhrgas UK E&P Limited (or *E.ON*). First oil occurred in April 2013 after the remaining upgrades were completed, at which time the *Voyageur Spirit* commenced its five-year charter with E.ON. The charter contract has an initial term of five years, with up to 10 one-year extension options exercisable by E.ON., subject to certain conditions. In May 2013, we completed the acquisition of the *Voyageur Spirit* FPSO unit from Sevan and immediately thereafter the FPSO unit was acquired by Teekay Offshore for \$540 million.

In November 2012, Teekay Offshore agreed to acquire a 2010-built HiLoad Dynamic Positioning (or *DP*) unit from Remora AS (or *Remora*), a Norway-based offshore marine technology company, for a total purchase price of approximately \$55 million, including modification costs. The HiLoad DP unit, which will operate under a ten-year time-charter contract with Petroleo Brasileiro SA (or *Petrobras*) in Brazil, is expected to be completed by June 30, 2013 and the unit is expected to commence operations at its full time-charter rate in early 2014 once modifications, delivery of the DP unit to Brazil, and operational testing have been completed. Under the terms of an agreement between Remora and Teekay Offshore, Teekay Offshore has a right of first refusal to acquire any future HiLoad projects developed by Remora.

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In May 2013, Teekay Offshore finalized the ten-year charter contract, plus extension options, with Salamander Energy plc (or *Salamander*) to supply a floating, storage and offloading (or *FSO*) unit in Asia. Teekay Offshore intends to convert its 1993-built shuttle tanker, the *Navion Clipper*, into an FSO unit for an estimated fully built-up cost of approximately \$50 million. The unit is expected to commence its contract with Salamander in the third quarter of 2014. Please read Item 1 Financial Statements: Note 18e Subsequent Events.

In May 2013, Teekay Offshore entered into an agreement with Statoil Petroleum AS (or *Statoil*), on behalf of the field license partners, to provide an FSO unit for the Gina Krog oil and gas field located in the North Sea. The contract will be serviced by a new FSO unit converted from the 1995-built shuttle tanker, *Randgrid*, which Teekay Offshore currently owns through a 67% owned subsidiary. The FSO conversion project is expected to be completed for a gross capital cost of approximately \$260 million, including amounts reimbursable upon delivery of the unit relating to installation and mobilization costs, and the cost of acquiring the remaining 33% ownership interest in the *Randgrid* shuttle tanker. Following completion in 2017, the newly converted FSO unit will commence operations under a 3-year firm period time-charter contract to Statoil, which Statoil has options to extend up to an additional 12 years. Please read Item 1 Financial Statements: Note 18f Subsequent Events.

In May 2013, Teekay Offshore agreed to acquire a 50% interest in the *Itajai* FPSO unit from us for a purchase price of approximately \$204 million. The acquisition was completed on June 10, 2013. The *Itajai* FPSO is operating on the Baúna and Piracaba (previously named Tiro and Sidon) fields in the Santos Basin offshore Brazil since February 2013 under a nine-year fixed-rate time-charter contract, plus extension options, with Petroleo Brasileiro SA (*Petrobras*). The remaining 50% interest in the *Itajai* FPSO unit is owned by Brazilian-based Odebrecht Oil & Gas S.A. (a member of the Odebrecht group) (or *Odebrecht*). Please read Item 1 Financial Statements: Note 18h Subsequent Events.

### **Private Placement by Teekay Offshore**

In April 2013, Teekay Offshore issued approximately 2.1 million common units in a private placement to an institutional investor for net proceeds of approximately \$60 million (excluding Teekay Offshore's general partner's proportionate capital contribution). Teekay Offshore intends to use the proceeds from the sale of the common units to partially fund the acquisition of four Suezmax newbuilding shuttle tankers and for general corporate purposes. Please read Item 1 Financial Statements: Note 18b Subsequent Events.

### **Public Offering by Teekay Offshore**

In April 2013, Teekay Offshore completed a public offering of 6.0 million 7.25% Series A Cumulative Redeemable Preferred Units, for net proceeds of approximately \$144.9 million. Teekay Offshore expects to use the net proceeds from the public offering for general corporate purposes, including the funding of newbuilding installments, capital conversion projects and the acquisition of vessels that we may offer to Teekay Offshore. Pending the application of funds for these purposes, Teekay Offshore expects to repay a portion of its outstanding debt under two of its revolving credit facilities. Please read Item 1 Financial Statements: Note 18c Subsequent Events.

### **Public Offering by Teekay LNG**

In May 2013, Teekay LNG announced entering into an equity distribution agreement to issue common units representing limited partner interests with an aggregate offering amount of up to \$100 million. Teekay LNG intends to use the net proceeds from the sales under this program for general corporate purposes, which may include, among other things, repaying or refinancing all or a portion of its outstanding indebtedness and funding future working capital requirements, capital expenditures or acquisitions. Please read Item 1 Financial Statements: Note 18g Subsequent Events.

### **Public Offering by Teekay Offshore**

In May 2013, Teekay Offshore announced entering into an equity distribution agreement to issue common units representing limited partner interests with an aggregate offering amount of up to \$100 million. Teekay Offshore intends to use the net proceeds from the sales under this program for general corporate purposes, which may include, among other things, repaying or refinancing all or a portion of its outstanding indebtedness and funding future working capital requirements, capital expenditures, including installments on newbuilds and expenditures on asset conversions, or acquisitions. Please read Item 1 Financial Statements: Note 18i Subsequent Events.

## **OTHER SIGNIFICANT PROJECTS AND DEVELOPMENTS**

### **Storm Damage to Banff FPSO Unit**

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On December 7, 2011, the Petrojarl Banff FPSO unit (or *Banff*), which operates on the Banff field in the U.K. sector of the North Sea, suffered a severe storm event and sustained damage to its moorings, turret and subsea equipment, which necessitated the shutdown of production on the unit. Due to the damage, we declared force majeure under the customer contract on December 8, 2011 and the *Banff* FPSO unit commenced a period of off-hire which is currently expected to continue until the fourth quarter of 2013 while repairs are assessed and completed. We do not have off-hire insurance covering the *Banff* FPSO. After the repairs and upgrades are completed, the *Banff* FPSO unit is expected to resume production on the Banff field, where it is expected to remain under contract until the end of 2018.

We expect that repair costs to the *Banff* FPSO unit and equipment and costs associated with the emergency response to prevent loss or further damage during the December 7, 2011 storm event will be primarily reimbursed through our insurance coverage subject to a \$750,000 deductible and the other terms and conditions of the applicable policies. In addition, we will also incur certain capital upgrade costs for the *Banff* FPSO unit and the *Apollo Spirit* related to upgrades to the mooring system required by the relevant regulatory authorities due to the extreme weather and sea states experienced during the December 7, 2011 storm. The *Apollo Spirit* was operating on the Banff field as a storage tanker and is expected to return to the Banff field at the same time as the *Banff* FPSO. The total of these capital upgrade costs is expected to amount to approximately \$90 million. The recovery of the capital upgrade costs from the charterer is subject to commercial negotiations or, failing agreement, the responsibility for these costs will be determined by an expedited arbitration procedure already agreed by the parties. Any capital upgrade costs not recovered from the charterer will be capitalized to the vessel cost.

**Table of Contents****RESULTS OF OPERATIONS**

We use a variety of financial and operational terms and concepts when analyzing our results of operations. In addition, you should consider certain factors when evaluating our historical financial performance and assessing our future prospects. These items can be found in Item 5 Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2012.

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

We manage our business and analyze and report our results of operations on the basis of four reportable segments: the shuttle tanker and FSO segment, the FPSO segment, the liquefied gas segment, and the conventional tanker segment. In order to provide investors with additional information about our conventional tanker segment, we have divided the conventional tanker segment into the fixed-rate tanker sub-segment and the spot tanker sub-segment. Please read Item 1 Financial Statements: Note 2 Segment Reporting.

***Shuttle Tanker and FSO Segment***

Our shuttle tanker and FSO segment (which includes our Teekay Shuttle and Offshore business unit) includes our shuttle tankers and FSO units. As at March 31, 2013, our shuttle tanker fleet consisted of 31 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters. Of the 31 shuttle tankers, six were owned through 50% owned subsidiaries of Teekay Offshore, three through a 67% owned subsidiary of Teekay Offshore and four were chartered-in by Teekay Offshore, with the remainder owned 100% by Teekay Offshore. Our FSO fleet consists of four vessels owned by Teekay Offshore that operate under fixed-rate time charters or fixed-rate bareboat charters. Teekay Offshore has 100% ownership interests in these units. We use these vessels to provide transportation and storage services to energy companies operating offshore oil field installations, primarily in the North Sea and Brazil. Our shuttle tankers in this segment service the conventional spot market from time to time. We also have one newbuilding shuttle tanker which delivered to us subsequent to March 31, 2013 and an additional three on order which are scheduled to deliver in mid-to late-2013. Subsequent to March 31, 2013, we committed to converting two of our shuttle tankers, the *Navion Clipper* and *Randgrid*, into FSO units.

The following table presents our shuttle tanker and FSO segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our shuttle tanker and FSO segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended		
	March 31		
	2013	2012	% Change
Revenues	138,653	156,235	(11.3)
Voyage expenses	21,809	27,015	(19.3)
Net revenues	116,844	129,220	(9.6)
Vessel operating expenses	44,907	49,819	(9.9)
Time-charter hire expense	14,777	13,617	8.5
Depreciation and amortization	27,696	31,792	(12.9)
General and administrative <sup>(1)</sup>	10,504	9,279	13.2
Restructuring charges	587		100.0
Income from vessel operations	18,373	24,713	(25.7)

Calendar-Ship-Days

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Owned Vessels	2,815	3,097	(9.1)
Chartered-in Vessels	371	348	6.6
<b>Total</b>	<b>3,186</b>	<b>3,445</b>	<b>(7.5)</b>

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to the shuttle tanker and FSO segment based on estimated use of corporate resources. For further discussion, please read *Other Operating Results* *General and Administrative Expenses*.

The average size of our shuttle tanker and FSO segment fleet decreased for the three months ended March 31, 2013 compared to the same period last year. The decrease was primarily due to the sale of the *Navion Fennia* in July 2012, the sale of the *Navion Savonita* in December 2012 and the sale of the *Basker Spirit* in January 2013. Included in calendar-ship-days are two owned shuttle tankers which have been in lay-up since May 2012 and February 2013, respectively, following their redelivery to us upon maturity of their time-charter-out contracts in April 2012 and November 2012 (or *the Lay-ups*).

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Net Revenues. Net revenues decreased for the three months ended March 31, 2013, compared to the same periods last year, primarily due to:

a decrease of \$7.3 million for the three months ended March 31, 2013, due to the Lay-ups;

a net decrease of \$4.2 million due to a decrease in revenues in our contract of affreightment fleet and fewer revenue days from the redelivery of three vessels to us in February 2012, March 2012 and April 2012, as they completed their time-charter-out agreements, partially offset by an increase in revenues in our time-chartered-out fleet from entering into new contracts and an increase in rates as provided in certain contracts;

a decrease of \$3.9 million for the three months ended March 31, 2013, due to the sale of the *Navion Savonita* in December 2012; and

a decrease of \$0.9 million for the three months ended March 31, 2013, due to a decrease in reimbursable bunker costs; partially offset by

an increase of \$3.4 million for the three months ended March 31, 2013, due to fewer repair off-hire days in our time-chartered-out fleet compared to the same period last year; and

an increase of \$0.7 million for the three months ended March 31, 2013, due to a decrease in bunker costs relating to a recovery of drydocking expenses upon the completion of the drydocking of the *Navion Saga*.

Vessel Operating Expenses. Vessel operating expenses decreased for the three months ended March 31, 2013, compared to the same period last year, primarily due to:

a decrease of \$3.5 million for the three months ended March 31, 2013, relating to the Lay-ups and reductions in costs associated with the sale of two of our older shuttle tankers in July 2012 and December 2012;

a decrease of \$1.5 million for the three months ended March 31, 2013, due to a decrease in ship management fees; and

a decrease of \$1.3 million for the three months ended March 31, 2013, due to a decrease in costs related to services and spares; partially offset by

an increase of \$0.8 million for the three months ended March 31, 2013, in crew and manning costs primarily due to the timing of bonus payments; and

an increase of \$1.0 million for the three months ended March 31, 2013, due to expenditures on projects completed to support our FSO tenders.

Time-Charter Hire Expense. Time-charter hire expense increased for the three months ended March 31, 2013, compared to the same period last year, primarily due to:

an increase of \$2.0 million for the three months ended March 31, 2013 due to fewer off-hire days in the in-chartered fleet; partially offset by

a decrease of \$0.8 million for the three months ended March 31, 2013, due to decreased spot in-chartering.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased for the three months ended March 31, 2013, from the same period last year primarily due to the impairment and write-down of two older shuttle tankers and one FSO unit in 2012 to their estimated fair value, the sale of the two older shuttle tankers in 2012 and one older shuttle tanker in 2013, and the completion of dry-dock amortization for three shuttle tankers, partially offset by additional dry-dock amortization relating to new dry dockings completed in 2012.

Restructuring Charges. Restructuring charges were \$0.6 million for the three months ended March 31, 2013, resulting from a reorganization of marine operations to create better alignment with our shuttle tanker business unit and a lower cost organization going forward. Please read Item 1 Financial Statements: Note 11 Restructuring Charges.

### ***FPSO Segment***

Our FPSO segment (which includes our Teekay Petrojarl business unit) includes the FPSO units and other vessels used to service our FPSO contracts. As at March 31, 2013, in addition to the four 100% owned FPSO units and the three FPSO units owned by Teekay Offshore, the FPSO segment had one FPSO unit under construction, scheduled to deliver in the first half of 2014, a 50% interest in one FPSO unit, and accounted for one FPSO unit which was acquired in May 2013, as a variable interest entity (or VIE). *Petrojarl I* FPSO unit's contract ended in April 2013 and has since been on off hire. We use these units and vessels to provide transportation, production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term fixed-rate time-charter contracts or FPSO service contracts. Historically, the utilization of FPSO units and other vessels in the North Sea is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to our offshore oil platforms, which generally reduce oil production.

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The following table presents our FPSO segment's operating results for the three months ended March 31, 2013 and 2012 and also provides a summary of the calendar-ship-days for our FPSO segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended		
	March 31		
	2013	2012	% Change
Revenues	140,929	128,668	9.5
Voyage expenses		232	(100.0)
Vessel operating expenses	77,384	74,082	4.5
Depreciation and amortization	34,032	33,148	2.7
General and administrative <sup>(1)</sup>	12,361	11,577	6.8
Income from vessel operations	17,152	9,629	78.1
<b>Calendar-Ship-Days</b>			
Owned Vessels	900	910	(1.1)

(1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to the FPSO segment based on estimated use of corporate resources. For further discussion, please read **Other Operating Results** **General and Administrative Expenses**.

The number of our FPSO units for the three months ended March 31, 2013 remained consistent compared to the same period last year. The *Voyageur Spirit* has been accounted for as a VIE since November 2011. Please read **Item 1** **Financial Statements: Note 3(a)** **Acquisitions FPSO Unit from Sevan Marine ASA**.

**Revenues.** Revenues increased for the three months ended March 31, 2013 compared to the same period last year, primarily due to:

an increase of \$7.6 million for the three months ended March 31, 2013, from the *Petrojarl Foinaven* due to the finalization with our customer of revenue for the prior year based on various annual operational performance measures, oil production levels and the average oil price for the year, and higher production in the first quarter of 2013 compared to the same period last year;

an increase of \$3.2 million for the three months ended March 31, 2013, due to a higher charter rate for the *Hummingbird Spirit* as a result of a contract renewal;

an increase of \$2.8 million for the three months ended March 31, 2013, related to a front end engineering and design study completed in the quarter; and

an increase of \$2.5 million for the three months ended March 31, 2013, due to a higher charter rate and a recovery of fuel costs for the *Petrojarl I*;  
partially offset by

a decrease of \$3.0 million for the three months ended March 31, 2013, as the *Voyageur Spirit* pre-operating cost recoveries are deferred during its mobilization phase, which was during the first quarter of 2013; and



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a decrease of \$0.7 million for the three months ended March 31, 2013, due to decreased incentive revenues earned due to lower production from the *Petrojarl Varg*.

Vessel Operating Expenses. Vessel operating expenses increased during the three months ended March 31, 2013, compared to the same period last year, primarily due to:

an increase of \$2.6 million for the three months ended March 31, 2013, due to the cost of a front end engineering and design study completed during the quarter;

an increase of \$1.5 million for the three months ended March 31, 2013, due to higher maintenance costs relating to the *Petrojarl Varg*, *Rio das Ostras* and the *Piranema Spirit* compared to the same period last year due to the timing of service and maintenance activities performed;

an increase of \$1.4 million for the three months ended March 31, 2013, due to higher crew and manning costs mainly relating to the *Petrojarl Varg* and the *Piranema Spirit* due to higher salary costs and crew levels;

an increase of \$1.2 million for the three months ended March 31, 2013, due to the weaker U.S. Dollar against the Norwegian Kroner (or *NOK*) compared to the same period last year; and

an increase of \$1.0 million for the three months ended March 31, 2013, due to higher crew costs on the *Petrojarl Foinaven* compared to the same period last year; partially offset by

a decrease of \$4.4 million for the three months ended March 31, 2013, as the *Voyageur Spirits* pre-operating costs are deferred during its mobilization phase, which was during the first quarter of 2013;

a decrease of \$1.1 million for the three months ended March 31, 2013, due to inspection costs on the *Petrojarl I* in the first quarter of 2012; and

a decrease of \$0.7 million for the three months ended March 31, 2013, due to decreased costs on the *Petrojarl Banff* FPSO unit as a result of the December 2011 weather-related incident.

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**Depreciation and Amortization Expense.** Depreciation and amortization expense increased for the three months ended March 31, 2013 from the same periods last year, primarily due to capital upgrades.

**Liquefied Gas Segment**

As at March 31, 2013, our liquefied gas segment (which includes our Teekay Gas Services business unit) consists of 29 liquefied natural gas (or LNG) carriers (in which Teekay LNG's interests ranged from 33% to 100%), and 30 LPG/Multigas carriers. However, the table below includes only those carriers we consolidate comprising 11 LNG carriers and five LPG carriers. The table excludes two newbuilding LNG carriers and all carriers accounted for under the equity method: (i) six LNG carriers relating to Teekay LNG's joint venture with Marubeni Corporation (or the *MALT LNG Carriers*), (ii) the four LNG carriers relating to the Angola LNG Project (or the *Angola LNG Carriers*), (iii) four LNG carriers relating to Teekay LNG's joint venture with QGTC Nakilat (1643-6) Holdings Corporation (or the *RasGas 3 LNG Carriers*), (iv) two LNG carriers relating to Teekay LNG's joint ventures with Exmar (or the *Exmar LNG Carriers*) and (v) the 25 Exmar LPG Carriers.

The following table compares our liquefied gas segment's operating results for the three months ended March 31, 2013 and 2012, and compares its net voyage revenues (which is a non-GAAP financial measure) for the three months ended March 31, 2013 and 2012 to voyage revenues, the most directly comparable GAAP financial measure. Non-GAAP financial measures may not be comparable to other companies which may calculate similar measures differently. We principally use net voyage revenues because it provides more meaningful information to us than voyage revenues and net voyage revenues is also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following tables also provide a summary of the changes in calendar-ship-days and revenue days for our liquefied gas segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended		
	March 31		
	2013	2012	% Change
Revenues	71,001	73,585	(3.5)
Voyage expenses	4	96	(95.8)
Net revenues	70,997	73,489	(3.4)
Vessel operating expenses	15,096	12,967	16.4
Depreciation and amortization	17,291	17,238	0.3
General and administrative <sup>(1)</sup>	6,196	5,105	21.4
Income from vessel operations	32,414	38,179	(15.1)
Calendar-Ship-Days			
Owned Vessels and Vessels under Direct Financing Lease	1,440	1,456	(1.1)

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to the liquefied gas segment based on estimated use of corporate resources. For further discussion, please read "Operating Results - General and Administrative Expenses."

During the three months ended March 31, 2013, one of our vessels was off-hire for 41 days for scheduled dry docking, compared to having none of our vessels off-hire during the first quarter of 2012.

**Net Revenues.** Net revenues decreased for the three months ended March 31, 2013, compared to the same period last year, primarily due to:

a decrease of \$2.6 million for the three months ended March 31, 2013 due to the *Arctic Spirit* being off-hire for 41 days in the first quarter of 2013 for a scheduled dry docking; and

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a decrease of \$0.8 million for the three months ended March 31, 2013 due to one less calendar day during 2013 compared to 2012; partially offset by

an increase of \$0.4 million for the three months ended March 31, 2013 due to the effect on our Euro-denominated revenues from the stronger Euro against the U.S. Dollar in 2013 compared to 2012; and

an increase of \$0.3 million for the three months ended March 31, 2013 due to revenue from ship management activities.

Vessel Operating Expenses. Vessel operating expenses increased for the three months ended March 31, 2013 from the same period last year, primarily as a result of spares and consumables purchased for the planned maintenance of the *Tangguh Hiri* and *Tangguh Sago* in 2013 and repairs during the dry docking of the *Arctic Spirit* in the first quarter of 2013.

### **Conventional Tanker Segment**

Our conventional tanker segment consists of conventional crude oil and product tankers that (i) are subject to long-term, fixed-rate time-charter contracts (which have an original term of one year or more), (ii) operate in the spot tanker market, or (iii) are subject to time-charters or contracts of affreightment that are priced on a spot market basis or are short-term, fixed-rate contracts (which have an original term of less than one year).

**Table of Contents****a) Fixed-Rate Tanker Sub-Segment**

Our fixed-rate tanker sub-segment, a subset of our conventional tanker segment (which includes our *Teekay Gas Services*, *Teekay Shuttle Offshore* and *Teekay Tankers Services* business units), includes conventional crude oil and product tankers on fixed-rate time charters with an original duration of more than one year. In addition, Teekay Tankers has a 50% interest in a Very Large Crude Carrier (or *VLCC*) under construction that is scheduled for delivery in 2013, which will be accounted for under the equity basis. Upon delivery, this vessel will commence operation under a time-charter for a term of five years. Please read Item 1 Financial Statements: Note 9(b) Commitments and Contingencies Joint Ventures.

The following table presents our fixed-rate tanker sub-segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure.

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended		
	March 31		
	2013	2012	% Change
Revenues	70,393	88,476	(20.4)
Voyage expenses	1,102	1,319	(16.5)
Net revenues	69,291	87,157	(20.5)
Vessel operating expenses	30,575	33,339	(8.3)
Time-charter hire expense	1,530	6,636	(76.9)
Depreciation and amortization	14,528	20,005	(27.4)
General and administrative <sup>(1)</sup>	5,774	6,712	(14.0)
Asset impairments	3,165		100.0
Restructuring charges	642		100.0
Income from vessel operations	13,077	20,465	(36.1)
<b>Calendar-Ship-Days</b>			
Owned Vessels	2,586	3,003	(13.9)
Chartered-in Vessels	90	364	(75.3)
Total	2,676	3,367	(20.5)

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to the fixed-rate tanker sub-segment based on estimated use of corporate resources. For further discussion, please read Other Operating Results General and Administrative Expenses.

The average fleet size of our fixed-rate tanker sub-segment (including vessels chartered-in), as measured by calendar-ship-days, decreased for the three months ended March 31, 2013 compared with the same period last year due to:

the transfer of four Suezmax tankers, three Aframax tankers and one medium-range (or *MR*) product tanker to the spot tanker sub-segment;

the redelivery to its owner of one in-chartered Suezmax tanker; and

an overall decrease in the number of calendar days for the current period due to 2012 being a leap year;

partially offset by

the transfer of one Aframax tanker from the spot tanker sub-segment.

The collective impact from the above noted fleet changes are referred to below as the *Net Fleet Reductions*.

Net Revenues. Net revenues decreased for the three months ended March 31, 2013 compared to the same period last year, primarily due to:

a net decrease of \$15.4 million for the three months ended March 31, 2013 due to the Net Fleet Reductions;

a decrease of \$1.9 million for the three months ended March 31, 2013 due to lower average charter rates earned from charter renewals and new charters; and

a decrease of \$1.6 million for the three months ended March 31, 2013 due to a decrease in interest income earned on our investment in a term loan;

partially offset by

an increase of \$0.7 million for the three months ended March 31, 2013 due to adjustments to the daily charter rates based on inflation and an increase in interest rates in accordance with the time-charter contracts for five Suezmax tankers (however, under the terms of these capital leases, we had corresponding increases in our lease payments, which are reflected as increases to interest expense; therefore, these and future similar interest rate adjustments do not affect our net cash flow or net income).

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Vessel Operating Expenses. Vessel operating expenses decreased for the three months ended March 31, 2013 from the same period last year, primarily due to:

a net decrease of \$4.1 million for the three months ended March 31, 2013 due to the Net Fleet Reductions; partially offset by

a net increase of \$1.3 million for the three months ended March 31, 2013 due to the timing of service and maintenance activities performed and an increase in manning costs for certain of our conventional tankers.

Time-Charter Hire Expense. Time-charter hire expense decreased for the three months ended March 31, 2013, compared to the same period last year, primarily due to the redelivery to its owner of one in-chartered Suezmax tanker.

Depreciation and Amortization. Depreciation and amortization expense decreased for the three months ended March 31, 2013, compared to the same period last year, primarily due to:

a net decrease of \$4.3 million for the three months ended March 31, 2013 due to the Net Fleet Reductions; and

a decrease of \$2.3 million for the three months ended March 31, 2013 due to the effect of vessel write-downs incurred in the fourth quarter of 2012; partially offset by

an increase of \$1.2 million for the three months ended March 31, 2013 due to accelerated amortization of intangible assets relating to the charter contracts of five Suezmax tankers, as result of changes to the expected the lives of these intangible assets.

Asset Impairments. Asset impairments for the three months ended March 31, 2013 primarily relate to write-down of one of our investments in term loans. Please read Item 1 Financial Statements: Note 6b Vessel Sales and Write-downs.

Restructuring Charges. Restructuring charges for the three months ended March 31, 2013 primarily relate to costs incurred in association with the reorganization of our marine operations. Please read Item 1 Financial Statements: Note 11 Restructuring Charges.

***b) Spot Tanker Sub-Segment***

Our spot tanker sub-segment, a subset of our conventional tanker segment (which includes our *Teekay Shuttle Offshore* and *Teekay Tankers Services* business units), consists of conventional crude oil tankers and product carriers operating on the spot tanker market or subject to time-charters or contracts of affreightment that are priced on a spot-market basis or are short-term, fixed-rate contracts. We consider contracts that have an original term of less than one year in duration to be short-term. Our conventional Aframax, Suezmax, and large and medium product tankers are among the vessels included in the spot tanker sub-segment.

Our spot tanker market operations contribute to the volatility of our revenues, cash flow from operations and net income (loss). Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. In addition, spot tanker markets historically have exhibited seasonal variations in charter rates. Spot tanker markets are typically stronger in the winter months as a result of increased oil consumption in the Northern Hemisphere and unpredictable weather patterns that tend to disrupt vessel scheduling.

The following table presents our spot tanker sub-segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure:

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(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended		
	March 31		
	2013	2012	% Change
Revenues	30,061	54,143	(44.5)
Voyage expenses	3,400	9,975	(65.9)
Net revenues	26,661	44,168	(39.6)
Vessel operating expenses	19,502	17,547	11.1
Time-charter hire expense	11,145	23,726	(53.0)
Depreciation and amortization	8,947	12,431	(28.0)
General and administrative <sup>(1)</sup>	4,436	5,689	(22.0)
Loss (gain) on sale of vessels and write-downs of vessels	32	(197)	(116.2)
Restructuring charges	825		100.0
Loss from vessel operations	(18,226)	(15,028)	21.3
<b>Calendar-Ship-Days</b>			
Owned Vessels	1,771	1,820	(2.7)
Chartered-in Vessels	650	1,283	(49.3)
Total	2,421	3,103	(22.0)

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to the spot tanker sub-segment based on estimated use of corporate resources. For further discussion, please read **Other Operating Results** **General and Administrative Expenses**.

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The average size of our spot tanker fleet (including vessels chartered-in), as measured by calendar-ship-days, decreased for the three months ended March 31, 2013, compared to the same period last year, primarily due to:

the transfer of one Aframax tanker to the fixed tanker sub-segment;

the sale of five Aframax tankers;

the in-charter redeliveries to their owners of three Suezmax tankers, six Aframax tankers and two long-range 2 (or *LR2*) product tankers (or *the In-charter Redeliveries*); and

an overall decrease in the number of calendar days for the current period due to 2012 being a leap year; partially offset by

the transfer of four Suezmax tankers, three Aframax tankers and one MR product tanker from the fixed-rate tanker sub-segment; and

the new in-charter of one Aframax tanker.

The collective impact from the above noted fleet changes are referred to below as the *Net Spot Fleet Reductions*.

**Tanker Market and TCE Rates**

Crude tanker spot rates improved slightly during the first quarter of 2013 but remained at comparatively low levels on a historical basis. Demand for large crude tankers decreased due to a reduction in crude oil production from the Organization of Petroleum Exporting Countries (or *OPEC*) with Saudi Arabian output falling to 9.0 million barrels per day (*mb/d*) during the first quarter compared to an average production of 9.5 *mb/d* in 2012. The onset of a relatively heavy refinery maintenance season towards the end of the first quarter also negatively impacted crude tanker demand. Seasonal factors gave some support to rates at times during the quarter, particularly in the Atlantic basin where cold weather in Northern Europe and poor weather in the U.S. Gulf region led to some sharp, but relatively short-lived, spikes in crude tanker rates.

LR2 product tanker rates held steady during the first quarter of 2013. High levels of naphtha arbitrage movements from Europe to Asia coupled with strong product imports from the Middle East to Asia due to local refinery maintenance supported the demand for LR2 tankers. The global LR2 fleet grew by only three vessels during the first quarter and LR2 fleet growth is expected to remain low with an orderbook of only 26 vessels for delivery through 2015.

In total, 8.7 million deadweight tonnes (or *mdwt*) of tankers delivered into the fleet during the first quarter of 2013, the lowest first quarter delivery total since 2008. The level of tanker removals was relatively low at 2.4 *mdwt* during the quarter which resulted in net fleet growth of 6.3 *mdwt*, or 1.3%. The current tanker orderbook of 54 *mdwt* is the lowest level since the second quarter of 2001 on an absolute basis, and the lowest since the second quarter of 1997 on a percentage of the total fleet basis (approximately 11%). Since the start of 2013, there has been an increase in new tanker orders with 8.9 *mdwt* of tanker orders in the first four months of the year versus 3.8 *mdwt* of orders in the same period of 2012; however, the pace of ordering remains low relative to historical levels.

The global economy continues to be a significant source of uncertainty for forecast oil and tanker demand growth with the International Monetary Fund (or *IMF*) recently downgrading its outlook for GDP growth in 2013 to 3.3% compared to its previous forecast of 3.5%. The outlook for oil demand during 2013 calls for a modest increase of 0.9 *mb/d* based on the average of the International Energy Agency (or *IEA*), Energy Information Administration (or *EIA*), and OPEC forecasts. For 2014, the outlook is more positive with the EIA forecasting global oil demand growth of 1.3 *mb/d* mainly driven by the non-OECD countries and China in particular.



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Vessel Type	Three Months Ended					
	March 31, 2013			March 31, 2012		
	Net Revenues (\$000 s)	Revenue Days	TCE Rate \$	Net Revenues (\$000 s)	Revenue Days	TCE Rate \$
Spot Fleet <sup>(1)</sup>						
Suezmax Tankers	13,988	1,023	13,671	24,945	1,000	