TEEKAY SHIPPING CORP
Form 6-K
November 17, 2003

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 September 30, 2003

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

TK House
Bayside Executive Park
West Bay Street & Blake Road
P.O. Box AP-59212, Nassau, Bahamas
(Address of principal executive office)

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

Form 20-F __X__ 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 __X__

[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 __X__

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

Yes _____ No __X__

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

INDEX

ITEM 1 - FINANCIAL STATEMENTS

INDEPENDENT ACCOUNTANT S REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of
Teekay Shipping Corporation

We have reviewed the accompanying consolidated balance sheet of Teekay Shipping Corporation and subsidiaries as of September 30, 2003, the related consolidated statements of income for the three and nine-month periods ended September 30, 2003 and 2002, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2003 and 2002. Our review also included Schedule A listed in Index Item 1. These consolidated financial statements and schedule are the responsibility of the Company s management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Teekay Shipping Corporation and subsidiaries as of December 31, 2002, and the related consolidated statements of income, changes in stockholders equity and cash flows for the year then ended, not presented herein, and in our report dated February 13, 2003 (except for Note 15(b) which is as of February 19, 2003.), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet and related schedule as of December 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet and schedule from which they have been derived.

Vancouver, Canada,
October 23, 2003

/s/ ERNST & YOUNG LLP
Chartered Accountants

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

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

	Three Months Ended September 30, 2003 $	2002 $	Nine Mon 2003 $
	(unaudited)		
NET VOYAGE REVENUES			
Voyage revenues	380,544	184,927	1,125
Voyage expenses	105,686	62,166	284
Net voyage revenues	274,858	122,761	840
OPERATING EXPENSES			
Vessel operating expenses	55,281	44,365	153
Time-charter hire expense	95,955	11,430	202
Depreciation and amortization	49,885	37,295	138
General and administrative	24,118	14,330	60
	225,239	107,420	555
Income from vessel operations	49,619	15,341	285
OTHER ITEMS			
Interest expense	(21,827)	(14,675)	(57
Interest income	799	898	2
Write-downs and loss on sale of vessels (note 13)	(5,843)	-	(36
Other loss (note 10)	(2,421)	(921)	(23
	(29,292)	(14,698)	(114
Net income	20,327	643	170
Earnings per common share			
- Basic	0.51	0.02	
- Diluted	0.50	0.02	
Weighted average number of common shares			
- Basic	40,042,702	39,667,088	39,87
- Diluted	40,942,172	40,229,966	40,56

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

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

	As at September 2003 $ (unaudite
ASSETS	
Current	
Cash and cash equivalents *(note 7)*	335,951
Restricted cash	773
Accounts receivable	114,519
Prepaid expenses and other assets	53,061
Total current assets	504,304
Marketable securities *(note 4)*	71,285
Vessels and equipment *(notes 7 and 13)*	
At cost, less accumulated depreciation of $986,986 (December 31, 2002 - $940,082)	2,502,791
Vessels under capital leases, at cost, less accumulated depreciation of $81 (December 31, 2002 - nil)	37,061
Advances on newbuilding contracts *(note 9)*	106,703
Total vessels and equipment	2,646,555
Restricted cash *(note 7)*	-
Deposit for purchase of Navion AS *(note 2)*	-
Net investment in direct financing leases *(note 2)*	46,280
Investment in joint ventures	55,082
Other assets	53,378
Intangible assets - net *(note 5)*	116,511
Goodwill *(note 5)*	130,291
	3,623,686

LIABILITIES AND STOCKHOLDERS' EQUITY
Current

Accounts payable	43,399
Accrued liabilities	92,456
Current portion of long-term debt *(note 7)*	144,074
Current obligation under capital lease *(note 9)*	1,135
Total current liabilities	281,064
Long-term debt *(note 7)*	1,605,331
Obligation under capital lease *(note 9)*	35,797
Other long-term liabilities	83,188
Total liabilities	2,005,380
Minority interest	19,232
Stockholders' equity	
Capital stock *(note 8)*	477,945
Retained earnings	1,099,106
Accumulated other comprehensive income (loss)	22,023
Total stockholders' equity	1,599,074
	3,623,686

Commitments and contingencies (*note 9*)

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

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

	Nine Months End
	2003
	$
	(unau
Cash and cash equivalents provided by (used for)	

OPERATING ACTIVITIES	
Net income	170,782
Non-cash items:	
Depreciation and amortization	138,790
Loss on disposition of assets	1,467
Loss on write-down of vessels and marketable securities	39,642
Equity income (net of dividends received: September 30, 2003 -$5,657 ; September 30, 2002 - $1,748)	1,904
Income tax expense	23,186
Other - net	(7,421)
Change in non-cash working capital items related to operating activities	(14,532)
Net cash flow from operating activities	353,818
FINANCING ACTIVITIES	
Net proceeds from long-term debt	1,679,297
Scheduled repayments of long-term debt	(49,182)
Prepayments of long-term debt	(1,023,000)
Decrease in restricted cash	8,012
Proceeds from issuance of Common Stock	11,757
Repurchase of Common Stock	-
Cash dividends paid	(25,678)
Net cash flow from financing activities	601,206
INVESTING ACTIVITIES	
Expenditures for vessels and equipment	(227,070)
Expenditures for drydocking	(23,191)
Proceeds from disposition of vessels and equipment	91,080
Purchase of Navion AS	(704,734)
Purchase of available-for-sale securities	(37,291)
Proceeds from disposition of available-for-sale securities	2,954
Proceeds from joint venture	25,500
Investment in joint venture and advance to joint venture partner	(25,000)
Other	(5,946)
Net cash flow from investing activities	(903,698)
Increase (decrease) in cash and cash equivalents	51,326
Cash and cash equivalents, beginning of the period	284,625
Cash and cash equivalents, end of the period	335,951

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands of U.S. dollars) 7

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)
(Information as at September 30, 2003 and for the Three and Nine-Month Periods
Ended September 30, 2003 and 2002 is unaudited)

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and the rules and regulations of the Securities and Exchange Commission. They include the accounts of Teekay Shipping Corporation (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 generally accepted accounting principles for complete annual financial statements have been omitted and, therefore, it is suggested that these interim financial statements be read in conjunction with the Company s audited financial statements for the year ended December 31, 2002. In the opinion of management, these statements reflect all adjustments (consisting only of normal recurring accruals), necessary to present fairly, in all material respects, the Company s consolidated financial position, results of operations, and cash flows for the interim periods presented. The results of operations for the three and nine-month periods ended September 30, 2003 are not necessarily indicative of those for a full fiscal year.

2. Acquisition of Navion AS

In April 2003, Teekay completed its acquisition of 100% of the issued and outstanding shares of Navion AS for approximately $774.2 million in cash, including transaction costs of approximately $7 million. The Company made a deposit of $76.0 million towards the purchase price on December 16, 2002. The remaining portion of the purchase price was paid on closing. The Company funded its acquisition of Navion by borrowing under a $500 million 364-day facility (subsequently replaced by a $550 million revolving credit facility), together with available cash and borrowings under other existing revolving credit facilities. Navion s results of operation have been consolidated with Teekay s results commencing April 1, 2003.

Navion, based in Stavanger, Norway, operates primarily in the shuttle tanker and the conventional crude oil and product tanker markets. Its modern shuttle tanker fleet, which as of September 30, 2003, consisted of eight owned and 12 chartered-in vessels (excluding five vessels chartered-in from the Company s shuttle tanker subsidiary Ugland Nordic Shipping AS (UNS)), provides logistical services to the Norwegian state-owned oil company, Statoil ASA, and other oil companies in the North Sea under fixed-rate, long-term contracts of affreightment. Navion s modern, chartered-in, conventional tanker fleet, which as of September 30, 2003, consisted of 12 crude oil tankers and 10 product tankers, operates primarily in the Atlantic region, providing services to Statoil and other oil companies. In addition, Navion owns two floating storage and off-take (FSO) vessels currently trading as conventional crude oil tankers in the Atlantic region, three chartered-in methanol carriers and one liquid petroleum gas (LPG) carrier on long-term charter to Statoil. Through Navion Chartering AS, an entity owned jointly with Statoil, Navion has a first right of refusal on Statoil s oil transportation requirements at the prevailing market rate until December 31, 2007. In addition to tanker operations, Navion also constructs, installs, operates and leases equipment (VOC Equipment) that reduces volatile organic compound emissions during loading, transportation and storage of oil and oil products.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

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The following table summarizes the estimated fair value of the assets acquired and liabilities assumed by the Company at the date of the Navion acquisition. The Company is in the process of finalizing certain elements of the purchase price allocation and, therefore, the allocation is subject to further refinement.

ASSETS	
Current assets	
Vessels and equipment	
Net investment in direct financing leases	
Other assets long-term	
Intangible assets subject to amortization:	
Contracts of affreightment (15-year sum-of-years declining balance)	
Goodwill (fixed-rate segment)	
Total assets acquired	
LIABILITIES	
Current liabilities	
Other long-term liabilities	
Total liabilities assumed	
Net assets acquired (cash consideration)	

The following table shows comparative summarized consolidated pro forma financial information for the Company for the nine-month period ended September 30, 2003 and 2002, giving effect to the acquisition of 100% of the outstanding shares in Navion as if the acquisition had taken place on January 1 on each of the periods presented:

	Pro Form
	Nine Months Ended
	2003
	(unaudited)
	$
Net voyage revenues......................................	1,023,351
Net income...	216,821
Net income per common share	

- basic	5.44
- diluted..	5.35

3. Acquisition of 50 % of Petrotrans Holdings Ltd.

On September 30, 2003, Teekay acquired 50% of the issued and outstanding shares of Petrotrans Holdings Ltd., the parent company of Skaugen Petrotrans Inc. (SPT). The acquisition was completed for approximately $25 million in cash, and an earn-out element to be calculated based on the financial performance of SPT over the next five years. The Company funded this acquisition with available cash.

SPT is a leading lightering company operating out of Houston, Texas. Lightering is the process of ship-to-ship transfer of oil cargo, which is required when vessels transporting oil are too large to enter ports that are not deep enough or have narrow entrances, or small berths. The lightering process consists of maneuvering a smaller tanker (service vessel) alongside the larger tanker, typically with both vessels underway. The service vessel transports the oil cargo to the port. SPT lighters approximately 1.1 million barrels of crude per day, or approximately 15% of all seaborne crude oil into US ports.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

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The acquisition of the 50% interest in Petrotrans Holdings Ltd. will be accounted for using the equity method, whereby the investment is carried at the Company s original cost plus its proportionate share of undistributed earnings.

4. Investments in Marketable Securities

	Cost $	Gross Unrealized Gains $	Gross Unrealized Losses $
September 30, 2003			
Available-for-sale equity securities..........	48,495	22,863	(73)
December 31, 2002			
Available-for-sale equity securities..........	21,416	-	(7,786)

Available-for-sale equity securities represent 2,906,000 shares (2002 - Nil) in A/S Dampskibsselskabet Torm ("Torm") and 801,221 shares (2002 - 1,001,221) in Nordic American Tanker Shipping Ltd.

5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2003 for the Company s spot tanker segment and the fixed-rate segment (as described in Note 14), are as follows:

	Spot Tanker Segment $	Fixed-Rate Segment $	Othe $
Balance as of January 1, 2003................	-	87,079	2,11
Goodwill acquired...........................	-	40,033	1,06
Balance as of September 30, 2003............	-	127,112	3,17

The goodwill allocated to the fixed-rate segment is tested for impairment each year. Based on the test conducted on the goodwill in the fixed-rate segment in June 2003, the Company determined that goodwill was not impaired at such time.

The following table presents amortization details of intangible assets acquired by the Company:

	Gross Carrying Amount $	Accumulated Amortization $	Ne
Contracts of affreightment ("COAs")..........	117,000	7,548	
Intellectual property.......................	7,701	642	
	124,701	8,190	

Aggregate amortization expense of intangible assets:
Three months ended September 30, 2003
Nine months ended September 30, 2003

6. Cash Flows

Cash interest paid by the Company during the nine-month period ended September 30, 2003 and 2002 approximated $67.2 million and $59.6 million, respectively.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)
(Information as at September 30, 2003 and for the Three and Nine-Month Periods Ended September 30, 2003 and 2002 is unaudited)

7. Long-Term Debt

	September 30, 2003 $
Revolving Credit Facilities...	570,000
Premium Equity Participating Security Units (7.25%) due May 18, 2006 ..	143,750
First Preferred Ship Mortgage Notes (8.32%) due through 2008...........	167,229
Term Loans due through 2010	516,602
Senior Notes (8.875%) due July 15, 2011	351,824
	1,749,405
Less current portion..	144,074
	1,605,331

As of September 30, 2003, the Company had three long-term Revolving Credit Facilities (the Revolvers) available, which, as at such date, provided for borrowings of up to $931.3 million, of which $361.3 million was undrawn. The amount available under the Revolvers reduces semi-annually by a combined $59.3 million, with final balloon reductions scheduled for one Revolver in 2006 and for the other two Revolvers in 2008. Two of the Revolvers are collateralized by first priority mortgages granted on 30 of the Company s vessels, together with other related collateral, and all the revolvers include a guarantee from Teekay for all amounts outstanding under the Revolvers.

The 7.25% Premium Equity Participating Security Units due May 18, 2006 (the Equity Units) are unsecured and subordinated to all of the Company s senior debt. The Equity Units are not guaranteed by any of the Company s subsidiaries and effectively rank behind all existing and future secured debt. Each Equity Unit includes (a) a forward contract that requires the holder to purchase for $25 a specified fraction of a share of the Company s Common Stock on February 16, 2006 and (b) a $25 principal amount, subordinated note due May 18, 2006. The forward contracts provide for contract adjustment payments of 1.25% annually and the notes bear interest at 6.0% annually. Upon settlement on February 16, 2006 of the 5.75 million forward contracts included in the Equity Units, the Company will issue between 3,267,150 and 3,991,075 shares of its Common Stock (depending on the average closing price of the Common Stock for the 20-trading day period ending on the third trading day prior to February 16, 2006).

The 8.32% First Preferred Ship Mortgage Notes due February 1, 2008 (the 8.32% Notes) are collateralized by first preferred mortgages on seven of the Company s Aframax tankers, together with other related collateral, and are guaranteed by seven subsidiaries of Teekay that own the mortgaged vessels (the 8.32% Notes Guarantor Subsidiaries) to a maximum of 95% of the fair value of their net assets. As at September 30, 2003, the fair value of these net assets approximated $172.5 million. The 8.32% Notes are also subject to a sinking fund, which will retire $45.0 million principal amount of the 8.32% Notes on each February 1, commencing 2004.

Condensed financial information regarding Teekay, the 8.32% Notes Guarantor Subsidiaries, and non-guarantor subsidiaries of Teekay is set out in Schedule A of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (all tabular amounts stated in thousands of U.S. do 12

The Company has several term loans outstanding, which, as at September 30, 2003, totaled $516.6 million. The term loans of the Company are collateralized by first preferred mortgages on the vessels to which the loans relate, together with other collateral. All term loans, other than UNS term loans totaling $348.6 million, are guaranteed by Teekay.

Pursuant to long-term debt agreements, the amount of Restricted Payments, as defined, that the Company can make, including dividends and purchases of its own capital stock, was limited as of September 30, 2003, to $506.7 million. Certain loan agreements require that a minimum level of free cash be maintained. As at September 30, 2003, this amount was $131.2 million.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

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

The authorized capital stock of Teekay at September 30, 2003 was 25,000,000 shares of Preferred Stock, with a par value of $1 per share, and 725,000,000 shares of Common Stock, with a par value of $0.001 per share. As at September 30, 2003, Teekay had 40,153,527 shares of Common Stock and no shares of Preferred Stock issued and outstanding.

As at September 30, 2003, the Company had reserved 5,342,069 shares of Common Stock for issuance upon exercise of options granted or to be granted pursuant to its 1995 Stock Option Plan. As at September 30, 2003, options to purchase a total of 4,062,366 shares of Teekay s Common Stock were outstanding, of which 2,079,771 options were then exercisable at prices ranging from $16.875 to $41.19 per share, with a weighted-average exercise price of $29.01 per share. All outstanding options have exercise prices ranging from $16.875 to $41.19 per share and a weighted-average exercise price of $34.094 per share. All outstanding options expire between July 19, 2005 and March 10, 2013, ten years after the date of each respective grant.

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

	Three Months Ended September 30,		Ni
	2003	2002	2
	$	$	

Net income - as reported	20,327	643	170
Less: Total stock-based compensation expense	2,060	1,919	6
Net income (loss) - pro forma	18,267	(1,276)	164
Basic earnings (loss) per common share:			
As reported	0.51	0.02	
Pro forma	0.46	(0.03)	
Diluted earnings (loss) per common share:			
As reported	0.50	0.02	
Pro forma	0.45	(0.03)	

For the purpose of the above pro forma calculation, the fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model. The following assumptions were used in computing the fair value of the options granted: expected volatility of 30%, expected life of five years, dividend yield of 3.0%, and weighted-average risk-free interest rate of 2.5% in 2003 and 4.7% in 2002.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)
(Information as at September 30, 2003 and for the Three and Nine-Month Periods Ended September 30, 2003 and 2002 is unaudited)

9. Commitments and Contingencies

As of September 30, 2003, the Company was committed to the construction of four Suezmax tankers (including two scheduled for conversion to shuttle tankers upon delivery) and nine Aframax tankers scheduled for delivery between November 2003 and January 2006, at a total cost of approximately $579.3 million, excluding capitalized interest. As of September 30, 2003, payments made towards these commitments totaled $99.1 million and long-term financing arrangements existed for $342.4 million of the cost of these vessels. It is the Company s intention to finance the remaining $137.8 million through either debt borrowing, surplus cash balances, or a combination thereof. As of September 30, 2003, the remaining payments required to be made under these newbuilding and conversion contracts were: $37.4 million in 2003, $324.9 million in 2004, and $117.9 million in 2005. Two of the Suezmax tanker newbuildings as well as one of the Aframax tanker newbuildings will be subject to long-term charter contracts upon delivery. These charter contracts expire between 2009 and 2017.

The Company is also committed to a 15-year capital lease on an Aframax tanker that was delivered in September 2003. The lease will require minimum payments of $66.6 million (including a purchase obligation payment) over the remaining term of the lease.

During September 2003, the Company was awarded a contract by a consortium of major oil companies (Industry Co-op) to construct and install VOC Equipment, which reduces emissions during cargo operations, on a number of shuttle tankers. The construction and installation of these plants are expected to be completed by the end of 2004 at a total cost to Teekay of approximately $42 million. Under an existing frame agreement, the Industry Co-op has the option to order additional plants, which the Company expects would cost between $40 million and $50 million.

Teekay and certain of its subsidiaries have guaranteed their share of the outstanding mortgage debt in four 50%-owned joint venture companies. As of September 30, 2003, Teekay and these subsidiaries had guaranteed $104.0 million, or 50% of the total $208.0 million, in outstanding mortgage debt of the joint venture companies. These joint venture companies own an aggregate of four shuttle tankers.

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 appropriate liability insurance that limits the exposure and enables the Company to recover any future amounts paid, less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

10. Other Loss

	Three Months Ended September 30, 2003 $	Three Months Ended September 30, 2002 $
Gain/(Loss) on disposition of available-for-sale securities	(28)	-
Write-down of marketable securities	-	-
Equity income	1,357	765
Income tax expense	(6,000)	(2,710)
Miscellaneous	2,250	1,024
	(2,421)	(921)

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)
(Information as at September 30, 2003 and for the Three and Nine-Month Periods Ended September 30, 2003 and 2002 is unaudited)

11. Comprehensive Income

	Three Months Ended September 30, 2003 $	Three Months Ended September 30, 2002 $
Net income	20,327	643
Other comprehensive income:		
Unrealized gain/(loss) on available-for-sale securities	22,577	(2,184)
Reclassification adjustment for loss on available-for-sale securities included in net income	31	-
Unrealized gain/(loss) on derivative instruments	6,644	(896)
Reclassification adjustment for gain/(loss) on derivative instruments	2,441	(1,146)
Comprehensive income/(loss)	52,020	(3,583)

12. Derivative Instruments and Hedging Activities

The Company uses derivatives only for hedging purposes. The following summarizes the Company s risk strategies with respect to market risk from foreign currency fluctuations, changes in interest rates and bunker fuel prices and the effect of these strategies on the Company s financial statements.

The Company hedges portions of its forecasted expenditures denominated in foreign currencies with forward contracts and a portion of its bunker fuel expenditures with bunker fuel swap contracts. As at September 30, 2003, the Company was committed to foreign exchange contracts for the forward purchase of approximately Norwegian Kroner 909.0 million, Canadian Dollars 52.5 million, Euros 0.5 million, Australian Dollars 1.2 million, and Singapore Dollars 15.2 million for U.S. Dollars at an average rate of Norwegian Kroner 7.64 per U.S. Dollar, Canadian Dollar 1.59 per U.S. Dollar, Euros 1.07 per U.S. Dollar, Australian Dollar 0.67 per U.S. Dollar, and Singapore Dollar 1.72 per U.S. Dollar, respectively. The foreign exchange forward contracts mature as follows: $31.1 million in 2003, $106.1 million in 2004, $20.0 million in 2005, and $5.0 million in 2006. As at September 30, 2003, the Company was committed to bunker fuel swap contracts totaling 10,860 metric tonnes, with a weighted-average price of $116.00 per tonne. The fuel swap contracts expire between October 2003 and May 2004.

As at September 30, 2003, the Company was committed to interest rate swap agreements whereby $710.0 million of the Company s floating-rate debt was swapped with fixed-rate obligations having a weighted-average remaining term of 1.8 years. These agreements, which expire between January 2004 and January 2006, effectively change the Company s interest rate exposure on $710.0 million of debt from a floating LIBOR rate to a weighted-average fixed-rate of 2.73%. The Company is exposed to credit loss in the event of non-performance by the counter parties to the interest rate swap agreements; however, the Company does not anticipate non-performance by any of the counter parties.

13. Write-Downs and Loss on Sale of Vessels

During the first two quarters of 2003, the Company sold six-1980s-built Aframax tankers and one 1980s-built Panamax oil/bulk/ore carriers (O/B/Os). During the third quarter of 2003, the Company sold three 1980s-built Panamax O/B/Os as well as two 1980s-built Aframax tankers. Subsequent to September 30, 2003, the Company sold four additional 1980s-built Panamax O/B/Os and one 1980s-built Aframax tanker.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (all tabular amounts stated in thousands of U.S. do 16

The results for the three and nine-month periods ended September 30, 2003 include write-downs and loss on sale from these vessels totaling $5.8 million and $36.3 million, respectively. Vessels write-downs to fair market value in the three and nine-month periods ended September 30, 2003, were determined using the estimated net proceeds from the sales.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)
(Information as at September 30, 2003 and for the Three and Nine-Month Periods Ended September 30, 2003 and 2002 is unaudited)

14. Segment Reporting

The Company has two reportable segments: its spot tanker segment and its fixed-rate segment. The Company s spot tanker segment consists of conventional crude oil tankers, O/B/Os, and product carriers operating on the spot market or subject to time charters or contracts of affreightment priced on a spot-market basis or on short-term fixed-rate contracts. The Company considers contracts that have an original term of less than three years in duration to be short-term. The Company s fixed-rate segment consists of shuttle tankers, FSO vessels, an LPG carrier and conventional crude oil and product tankers subject to long-term fixed-rate time-charter contracts or contracts of affreightment. Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Company s consolidated financial statements.

The following tables present results for these segments for the three- and nine-month periods ended September 30, 2003 and 2002.

Three months ended September 30, 2003	**Spot Tanker Segment $**	**Fixed-Rate Segment $**
Net voyage revenues - external................	150,471	124,387
Vessel operating expenses.....................	31,793	23,488
Time-charter hire expense.....................	50,112	45,843
Depreciation and amortization.................	27,004	22,881
General and administrative (1)................	14,839	9,279
Income from vessel operations.................	26,723	22,896
Net voyage revenues - intersegment...........	-	4,986
Total assets at September 30, 2003...........	1,335,183	1,649,299

Three months ended September 30, 2002	**Spot Tanker Segment $**	**Fixed-Rate Segment $**

Net voyage revenues - external................	86,691	36,070
Vessel operating expenses....................	33,014	11,351
Time-charter hire expense....................	11,430	-
Depreciation and amortization.................	26,454	10,841
General and administrative (1)................	11,536	2,794
Income from vessel operations	4,257	11,084
Net voyage revenues - intersegment...........	-	-

Nine months ended September 30, 2003	Spot Tanker Segment $	Fixed-Rate Segment $
Net voyage revenues - external................	546,125	294,715
Vessel operating expenses....................	95,821	57,636
Time-charter hire expense....................	113,851	88,498
Depreciation and amortization.................	81,671	57,119
General and administrative (1)................	39,421	21,333
Income from vessel operations................	215,361	70,129
Net voyage revenues - intersegment............	-	18,850

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)
(Information as at September 30, 2003 and for the Three and Nine-Month Periods Ended September 30, 2003 and 2002 is unaudited)

Nine months ended September 30, 2002	Spot Tanker Segment $	Fixed-Rate Segment $
Net voyage revenues - external................	281,176	107,552
Vessel operating expenses....................	96,671	30,744
Time-charter hire expense....................	37,640	-
Depreciation and amortization.................	77,556	32,580
General and administrative (1)................	34,622	8,202
Income from vessel operations................	34,687	36,026
Net voyage revenues - intersegment...........	-	-

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

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

Total assets of all segments...	
Cash, restricted cash and marketable securities............................	
Accounts receivable and other assets.......................................	
Consolidated total assets..	

15. Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. FIN 46 applies immediately to variable interest entities created after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. FIN 46 also sets forth certain disclosures regarding interests in variable interest entities that are deemed significant, even if consolidation is not required. The Company is currently evaluating the effect that the adoption of FIN 46 will have on its financial position, results of operations and cash flows.

16. Subsequent Event

Subsequent to September 30, 2003, the Company repurchased $29.9 million of its 8.32% Notes at a total cost of $33.2 million. In addition, the Company has also cancelled $57.8 million of its 8.32% Notes, which previously had been outstanding, although held by the Company.

SCHEDULE A

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

CONDENSED STATEMENTS OF INCOME AND RETAINED EARNINGS
(in thousands of U.S. dollars)
(unaudited)

	Three Months Ended September 30, 2		
		8.32% Notes	
	Teekay Shipping	Guarantor	Non-Guarantor

	Corp. $	Subsidiaries $	Subsidiaries $	Elimin $
Net voyage revenues	-	17,203	275,470	(17,
Operating expenses	2,916	8,786	231,352	(17,
(Loss) income from vessel operations	(2,916)	8,417	44,118	
Net interest expense	(16,063)	-	(4,965)	
Equity in net income of subsidiaries	51,427	-	-	(51,
Other income (loss)	(12,121)	-	3,857	
Net income	20,327	8,417	43,010	(51,
Retained earnings (deficit), beginning of the period	1,087,367	(11,617)	1,326,299	(1,314,
Dividends declared	(8,588)	-	-	
Retained earnings (deficit), end of the period	1,099,106	(3,200)	1,369,309	(1,366,

Three Months Ended September 30 ,

	Teekay Shipping Corp. $	8.32% Notes Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Elimin $
Net voyage revenues	-	9,260	149,480	(35,
Operating expenses	3,442	9,031	130,926	(35,
(Loss) income from vessel operations	(3,442)	229	18,554	
Net interest expense	(10,623)	-	(3,154)	
Equity in net income of subsidiaries	15,566	-	-	(15,
Other loss	(858)	-	(63)	
Net income	643	229	15,337	(15,
Retained earnings (deficit), beginning of the period	938,285	(13,008)	1,078,472	(1,065,
Dividends declared	(8,535)	-	-	
Repurchase of Common Stock	(967)	-	-	
Retained earnings (deficit), end of the period	929,426	(12,779)	1,093,809	(1,081,

(See Notes 7 and 9)

SCHEDULE A

CONDENSED STATEMENTS OF INCOME AND RETAINED EARNINGS (in thousands of U.S. dollars) (unaudited)

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

CONDENSED STATEMENTS OF INCOME AND RETAINED EARNINGS
(in thousands of U.S. dollars)
(unaudited)

	Nine Months Ended September 30, 2			
	Teekay Shipping Corp. $	8.32% Notes Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Elimin $
Net voyage revenues	-	35,104	841,452	(35,
Operating expenses	9,380	25,192	556,494	(35,
(Loss) income from vessel operations	(9,380)	9,912	284,958	
Net interest expense	(40,790)	-	(14,191)	
Equity in net income of subsidiaries	233,809	-	-	(233,
Other loss	(12,857)	-	(46,870)	
Net income	170,782	9,912	223,897	(233,
Retained earnings (deficit), beginning of the period	954,005	(13,112)	1,145,412	(1,132,
Dividends declared	(25,681)	-	-	
Retained earnings (deficit), end of the period	1,099,106	(3,200)	1,369,309	(1,366,

	Nine Months Ended September 30, 2			
	Teekay Shipping Corp. $	8.32% Notes Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Elimin $
Net voyage revenues	-	27,237	467,263	(105,
Operating expenses	9,276	24,738	389,773	(105,
(Loss) income from vessel operations	(9,276)	2,499	77,490	
Net interest expense	(31,441)	-	(9,722)	
Equity in net income of subsidiaries	59,907	-	-	(59,
Other income (loss)	1,095	-	(10,360)	
Net income	20,285	2,499	57,408	(59,
Retained earnings (deficit), beginning of the period	935,660	(15,278)	1,036,401	(1,021,
Dividends declared	(25,552)	-	-	
Repurchase of Common Stock	(967)	-	-	
Retained earnings (deficit), end of the period	929,426	(12,779)	1,093,809	(1,081,

(See Notes 7 and 9)

SCHEDULE A

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

CONDENSED BALANCE SHEETS
(in thousands of U.S. dollars)
(unaudited)

	As at September 30, 2003			
	Teekay Shipping Corp. $	8.32% Notes Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Elimin
ASSETS				
Cash and cash equivalents	-	-	335,951	
Other current assets	2,026	371	261,956	(9
Total current assets	2,026	371	597,907	(9
Vessels and equipment (net)	-	246,409	2,400,146	
Advances due from subsidiaries	335,259	-	-	(33
Net investment in direct financing leases	-	-	46,280	
Investment in joint ventures	-	-	55,082	
Other assets (principally marketable securities and investments in subsidiaries)	1,922,675	-	124,663	(1,92
Intangible assets - net	-	-	116,511	
Goodwill	-	-	130,291	
	2,259,960	246,780	3,470,880	(2,35
LIABILITIES & STOCKHOLDERS' EQUITY				
Current liabilities	16,239	1,437	359,388	(9
Long-term debt and other long-term liabilities	666,670	-	1,057,646	
Due (from)/to affiliates	-	(120,787)	500,573	(37
Total liabilities	682,909	(119,350)	1,917,607	(47
Minority interest	-	-	19,232	
Stockholders' Equity				
Capital stock	477,945	23	5,943	(
Contributed capital	-	369,307	136,766	(50
Retained earnings (deficit)	1,099,106	(3,200)	1,369,309	(1,36
Accumulated other comprehensive income	-	-	22,023	
Total stockholders' equity	1,577,051	366,130	1,534,041	(1,87
	2,259,960	246,780	3,470,880	(2,35

	As at December 31, 2002			
	Teekay Shipping Corp. $	8.32% Notes Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Elimi
ASSETS				
Cash and cash equivalents	-	-	284,625	
Other current assets	1,500	43	197,390	(9
Total current assets	1,500	43	482,015	(9
Vessels and equipment (net)	-	258,664	1,807,993	
Advances due from subsidiaries	263,105	-	-	(26
Investment in joint ventures	-	-	56,354	
Other assets (principally marketable securities and investments in subsidiaries)	1,701,937	-	123,748	(1,70
Goodwill	-	-	89,189	
	1,966,542	258,707	2,559,299	(2,06
LIABILITIES & STOCKHOLDERS' EQUITY				
Current liabilities	22,320	7,574	255,661	(9
Long-term debt and other long-term liabilities	519,229	-	572,500	
Due (from)/to affiliates	-	(105,085)	425,788	(32
Total liabilities	541,549	(97,511)	1,253,949	(41
Minority interest	-	-	20,324	
Stockholders' Equity				
Capital stock	470,988	23	5,943	(
Contributed capital	-	369,307	136,766	(50
Retained earnings (deficit)	954,005	(13,112)	1,145,412	(1,13
Accumulated other comprehensive loss	-	-	(3,095)	
Total stockholders' equity	1,424,993	356,218	1,285,026	(1,64
	1,966,542	258,707	2,559,299	(2,06

(See Notes 7 and 9)

SCHEDULE A

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)
(unaudited)

	Nine Months Ended Septembe		
	Teekay Shipping Corp. $	8.32% Notes Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $
Cash and cash equivalents provided by (used for)			
OPERATING ACTIVITIES			
Net cash flow from operating activities	(52,434)	16,211	390,041
FINANCING ACTIVITIES			
Net proceeds from long-term debt	138,509	-	1,540,788
Scheduled repayments of long-term debt	-	-	(49,182)
Prepayments of long-term debt	-	-	(1,023,000)
Other	(86,075)	(15,702)	95,868
Net cash flow from financing activities	52,434	(15,702)	564,474
INVESTING ACTIVITIES			
Expenditures for vessels and equipment	-	(509)	(249,752)
Expenditures for purchase of Navion AS	-	-	(704,734)
Proceeds from disposition of assets	-	-	91,080
Other	-	-	(39,783)
Net cash flow from investing activities	-	(509)	(903,189)
Increase in cash and cash equivalents	-	-	51,326
Cash and cash equivalents, beginning of the period	-	-	284,625
Cash and cash equivalents, end of the period	-	-	335,951

	Nine Months Ended September		
	Teekay Shipping Corp. $	8.32% Notes Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $
Cash and cash equivalents provided by (used for)			
OPERATING ACTIVITIES			
Net cash flow from operating activities	(68,951)	15,661	190,457
FINANCING ACTIVITIES			
Net proceeds from long-term debt	-	-	78,890
Scheduled repayments of long-term debt	-	-	(34,676)

Prepayments of long-term debt	-	-	(8,000)
Other	68,951	(11,792)	(80,633)
Net cash flow from financing activities	68,951	(11,792)	(44,419)
INVESTING ACTIVITIES			
Expenditures for vessels and equipment	-	(3,869)	(112,273)
Other	-	-	(47,210)
Net cash flow from investing activities	-	(3,869)	(159,483)
Decrease in cash and cash equivalents	-	-	(13,445)
Cash and cash equivalents, beginning of the period	-	-	174,950
Cash and cash equivalents, end of the period	-	-	161,505

CONDENSED STATEMENTS OF CASH FLOWS (in thousands of U.S. dollars) (unaudited) 25