TEEKAY CORP
Form 6-K
September 01, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016
Commission file number 1- 12874

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

4th 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 ý 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 ý
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 ý

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TEEKAY CORPORATION AND SUBSIDIARIES
REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016
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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 June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	$	$	$	$
Revenues	587,619	592,797	1,228,727	1,138,659
Voyage expenses	(28,299)	(23,890)	(59,889)	(49,560)
Vessel operating expenses	(205,655)	(201,370)	(421,516)	(385,573)
Time-charter hire expenses	(38,314)	(30,333)	(77,917)	(55,260)
Depreciation and amortization	(141,079)	(128,199)	(285,236)	(240,903)
General and administrative	(29,871)	(33,730)	(62,838)	(71,684)
Asset impairments (note 7)	(62,605)	(500)	(62,605)	(15,996)
(Loss) gain on sale of vessels, equipment and other assets (note 7)	—	—	(27,619)	1,643
Restructuring (charges) reversals (note 12)	(5,818)	742	(19,804)	(8,384)
Income from vessel operations	75,978	175,517	211,303	312,942
Interest expense	(73,255)	(62,388)	(145,458)	(113,734)
Interest income	1,042	1,199	2,364	2,729
Realized and unrealized (loss) gain on non-designated derivative instruments (note 15)	(89,272)	63,752	(196,893)	(19,634)
Equity income	37,219	39,901	52,636	60,650
Foreign exchange (loss) gain (notes 8 and 15)	(15,157)	(1,604)	(25,671)	15,906
Other loss (note 13)	(21,436)	(389)	(21,286)	(14)
Net (loss) income before income taxes	(84,881)	215,988	(123,005)	258,845
Income tax (expense) recovery (note 16)	(1,423)	(752)	(2,499)	243
Net (loss) income	(86,304)	215,236	(125,504)	259,088
Less: Net loss (income) attributable to non-controlling interests	8,495	(149,324)	(1,088)	(202,940)
Net (loss) income attributable to shareholders of Teekay Corporation	(77,809)	65,912	(126,592)	56,148
Per common share of Teekay Corporation (note 17)				
• Basic (loss) income attributable to shareholders of Teekay Corporation	(1.14)	0.91	(1.81)	0.77
• Diluted (loss) income attributable to shareholders of Teekay Corporation	(1.14)	0.90	(1.81)	0.77
• Cash dividends declared	0.0550	0.3163	0.1100	0.6325
Weighted average number of common shares outstanding (note 17)				
• Basic	72,945,635	72,697,121	72,844,031	72,623,503
• Diluted	72,945,635	73,477,680	72,844,031	73,379,228

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

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TEEKAY CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands of U.S. Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Net (loss) income	(86,304)	215,236	(125,504)	259,088
Other comprehensive (loss) income:				
Other comprehensive (loss) income before reclassifications				
Unrealized (loss) gain on marketable securities	(25)	(217)	10	(429)
Unrealized (loss) gain on qualifying cash flow hedging instruments	(12,547)	328	(38,193)	(644)
Pension adjustments, net of taxes	209	(96)	431	(188)
Foreign exchange (loss) gain on currency translation	(44)	(174)	87	(653)
Amounts reclassified from accumulated other comprehensive (loss) income to equity income:				
Realized loss on qualifying cash flow hedging instruments	892	591	1,821	953
Other comprehensive (loss) income	(11,515)	432	(35,844)	(961)
Comprehensive (loss) income	(97,819)	215,668	(161,348)	258,127
Less: Comprehensive loss (income) attributable to non-controlling interests	16,947	(149,934)	23,914	(203,144)
Comprehensive (loss) income attributable to shareholders of Teekay Corporation	(80,872)	65,734	(137,434)	54,983

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

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TEEKAY CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. Dollars, except share and per share amounts)

	As at June 30, 2016 $	As at December 31, 2015 $
ASSETS		
Current		
Cash and cash equivalents (note 8)	789,708	678,392
Restricted cash	17,530	61,818
Accounts receivable, including non-trade of $15,968 (2015 – $12,305) and related party balance of $31,873 (2015 – $65,936)	363,783	395,013
Assets held for sale (note 7)	75,562	55,450
Net investment in direct financing leases (note 6)	25,095	26,542
Prepaid expenses and other	116,270	102,429
Total current assets	1,387,948	1,319,644
Restricted cash – non-current	125,509	114,619
Vessels and equipment (note 8)		
At cost, less accumulated depreciation of $3,107,437 (2015 – $2,894,097)	7,953,534	8,460,500
Vessels under capital leases, at cost, less accumulated amortization of $61,087 (2015 – $56,316)	289,797	88,215
Advances on newbuilding contracts and conversion costs (notes 10a)	889,617	817,878
Total vessels and equipment	9,132,948	9,366,593
Net investment in direct financing leases - non-current (note 6)	647,653	657,587
Loans to equity-accounted investees and joint venture partners, bearing interest between nil and LIBOR plus margins up to 3%	191,271	184,390
Equity-accounted investments (notes 4a and 10b)	984,601	905,159
Other non-current assets	220,740	232,776
Intangible assets – net	95,698	111,909
Goodwill	176,631	168,571
Total assets	12,962,999	13,061,248
LIABILITIES AND EQUITY		
Current		
Accounts payable	63,952	64,212
Accrued liabilities	410,084	412,278
Current portion of derivative liabilities (note 15)	154,166	267,539
Current portion of long-term debt (note 8)	1,059,354	1,106,104
Current obligation under capital leases	62,973	4,546
Current portion of in-process revenue contracts	32,876	32,109
Total current liabilities	1,783,405	1,886,788
Long-term debt (note 8)	5,941,283	6,277,982
Long-term obligation under capital leases	166,270	54,581
Derivative liabilities (note 15)	612,437	414,084
In-process revenue contracts	103,491	118,690
Other long-term liabilities (note 10c)	359,345	352,378
Total liabilities	8,966,231	9,104,503
Commitments and contingencies (notes 4a, 6, 8, 10 and 15)		
Redeemable non-controlling interest (note 10d)	248,317	255,671

Equity		
Common stock and additional paid-in capital ($0.001 par value; 725,000,000 shares authorized; 84,832,824 shares outstanding (2015 – 72,711,371); 84,832,824 shares issued (2015 – 72,711,371)) (note 9)	875,275	775,018
Retained earnings	31,892	158,898
Non-controlling interest	2,866,027	2,782,049
Accumulated other comprehensive loss (note 14)	(24,743)	(14,891)
Total equity	3,748,451	3,701,074
Total liabilities and equity	12,962,999	13,061,248

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

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TEEKAY CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. Dollars)

	Six Months Ended June 30, 2016 $	2015 $
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net (loss) income	(125,504)	259,088
Non-cash items:		
Depreciation and amortization	285,236	240,903
Amortization of in-process revenue contracts	(14,432)	(12,149)
Unrealized loss (gain) on derivative instruments	82,807	(2,968)
Loss (gain) on sale of vessels and equipment	27,619	(1,643)
Asset impairments (note 7)	62,605	15,996
Equity income, net of dividends received	(44,972)	(14,667)
Income tax expense (recovery)	2,499	(243)
Unrealized foreign exchange gain and other	61,459	(82,598)
Change in operating assets and liabilities	(14,570)	(54,303)
Expenditures for dry docking	(15,905)	(11,102)
Net operating cash flow	306,842	336,314
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt, net of issuance costs	1,147,647	1,143,442
Prepayments of long-term debt	(1,068,937)	(395,199)
Scheduled repayments of long-term debt (note 8)	(496,034)	(282,391)
Decrease in restricted cash	34,681	4,296
Net proceeds from equity and warrant issuances of subsidiaries to non-controlling interests (note 5)	168,752	187,576
Net proceeds from equity issuance of Teekay Corporation	96,163	—
Distributions paid from subsidiaries to non-controlling interests	(62,403)	(164,808)
Cash dividends paid	(8,003)	(45,910)
Other financing activities	(8,570)	780
Net financing cash flow	(196,704)	447,786
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(269,109)	(873,274)
Proceeds from sale of vessels and equipment	149,582	8,918
Proceeds from sale-lease back of a vessel	179,434	—
Investment in equity-accounted investments	(56,578)	(8,604)
Loan repayments from joint ventures and joint venture partners	(13,536)	16,768
Increase (decrease) in restricted cash	4	(42,048)
Other investing activities	11,381	15,121
Net investing cash flow	1,178	(883,119)
Increase (decrease) in cash and cash equivalents	111,316	(99,019)
Cash and cash equivalents, beginning of the period	678,392	806,904
Cash and cash equivalents, end of the period	789,708	707,885

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, except share amounts)

	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 $
Balance as at December 31, 2015	72,711	775,018	158,898	(14,891)	2,782,049	3,701,074	255,671
Net loss			(126,592)		1,088	(125,504)	
Reclassification of redeemable non-controlling interest in net income (note 5)					(9,492)	(9,492)	9,492
Other comprehensive loss				(10,842)	(25,002)	(35,844)	
Dividends declared			(8,072)		(51,653)	(59,725)	(10,750)
Reinvested dividends	1	2				2	
Exercise of stock options and other (note 9)	102						
Employee stock compensation (note 9)		4,092				4,092	
Proceeds from equity offering, net of offering costs	12,019	96,163				96,163	
Dilution losses on equity issuances of subsidiaries			12,651			12,651	
Additions to non-controlling interest from equity contributions and other			(4,993)	990	169,037	165,034	(6,096)
Balance as at June 30, 2016	84,833	875,275	31,892	(24,743)	2,866,027	3,748,451	248,317

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

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TEEKAY CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. Dollars, other than share and per 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, 2015, included in the Company's Annual Report on Form 20-F, filed with the U.S. Securities and Exchange Commission (or SEC) on April 26, 2016. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, cash flows and changes in total equity for the interim periods presented. The results of operations for the six months ended June 30, 2016 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.

Teekay's publicly-listed subsidiary, Teekay Offshore Partners, L.P. (or Teekay Offshore), considers its shuttle tankers to be comprised of two components: (i) a conventional tanker (the "tanker component") and (ii) specialized shuttle equipment (the "shuttle component"). Teekay Offshore differentiates these two components on the principle that a shuttle tanker can also operate as a conventional tanker without the use of the shuttle component. The economics of this alternate use depend on the supply and demand fundamentals in the two segments. Historically, the useful life of both components was assessed as 25 years commencing from the date the vessel is delivered from the shipyard. During the three months ended March 31, 2016, Teekay Offshore considered factors related to the ongoing use of the shuttle component and reassessed the useful life as being 20 years based on the challenges associated with adverse market conditions in the energy sector and other long term factors associated with the global oil industry. This change in estimate, commencing January 1, 2016, impacts the entire fleet of Teekay Offshore's shuttle tanker vessels. Separately, Teekay Offshore has reviewed the depreciation of the tanker component for eight vessels in its fleet that are 17 years of age or older. Based on Teekay Offshore's expected operating plan for these vessels, it has reassessed the estimated useful life of the tanker component for these vessels as 20 years, commencing January 1, 2016. As market conditions evolve, Teekay Offshore will continue to monitor the useful life of the tanker component for other vessels within the shuttle tanker fleet.

The effect of these changes in estimates on the Company's consolidated statements of (loss) income, was an increase in depreciation and amortization expense and net loss of $7.3 million and $14.6 million, respectively, in the three and six months ended June 30, 2016, and an increase in net loss attributable to shareholders of the Company of $2.4 million and $4.8 million, or $0.03 and $0.06, respectively, per basic and diluted common share, for the three and six months ended June 30, 2016.

2. Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (or FASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, (or ASU 2014-09). ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 is effective for the Company January 1, 2018 and shall be applied, at the Company's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the effect of adopting this new accounting guidance.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (or ASU 2016-02). ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for the Company January 1, 2019 with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is evaluating the effect of adopting this new accounting guidance.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting (or ASU 2016-09). ASU 2016-09 simplifies aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for the Company January 1, 2017 with early adoption permitted. The Company expects the impact of adopting this new accounting guidance will be a change in presentation of cash payments for tax withholdings on share-settled equity awards from an operating cash outflow to financing cash outflow on the Company's statement of cash flows.

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

3. Segment Reporting

The Company has four primary lines of business: offshore logistics (shuttle tankers, the HiLoad DP unit, floating storage and offtake (or FSO) units, units for maintenance and safety (or UMS) and long-distance towing and offshore installation vessels), offshore production (floating production, storage and off-loading (or FPSO) units), liquefied gas carriers (liquefied natural gas (or LNG) and liquefied petroleum gas (or LPG) carriers) and conventional tankers. The Company manages these businesses for the benefit of all stakeholders. The Company allocates capital and assesses performance both from the separate perspectives of our publicly-traded subsidiaries Teekay Offshore, Teekay LNG Partners, L.P. (or Teekay LNG), Teekay Tankers Ltd. (or Teekay Tankers) (together, the Daughter Companies) and Teekay and its remaining subsidiaries (or Teekay Parent) as well as from the perspective of the lines of business. Historically, the Company’s organizational structure and internal reporting has been primarily based on the lines of business (the Line of Business approach), resulting in the Company’s segment disclosure presentation on a lines-of-business basis, without reference to the legal entities. With the establishment of the Daughter Companies and subsequent dropdown of vessels from Teekay Parent to the Daughter Companies, the Company’s organizational structure and internal reporting has gradually evolved to focus less on lines of business and more on the Daughter Companies and Teekay Parent (the Legal Entity approach). As a result of an internal re-organization that was completed in the third quarter of 2015, the primary focus of the Company’s organizational structure, internal reporting and allocation of resources by the chief operating decision maker is now the Legal Entity approach. As such, the Company has modified the presentation of its segments to incorporate the Legal Entity approach. However, the Company has continued to incorporate the Line of Business approach within its segments, as in certain cases there is more than one line of business in each Daughter Company and the Company believes this information allows a better understanding of the Company’s performance and prospects for future net cash flows. All segment information for prior periods has been retroactively adjusted to be consistent with the change in segment presentation that was adopted in the third quarter of 2015.

The following table includes results for the Company’s revenues by segment for the three and six months ended June 30, 2016 and 2015:

	Revenues Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	$	$	$	$
Teekay Offshore				
Offshore Logistics[(1)]	155,095	161,267	320,205	319,913
Offshore Production	124,715	141,722	257,499	239,997
Conventional Tankers[(1)]	4,654	8,245	13,468	16,307
	284,464	311,234	591,172	576,217
Teekay LNG				
Liquefied Gas Carriers[(1)]	84,497	77,466	163,082	153,400
Conventional Tankers	14,744	21,142	31,930	42,534
	99,241	98,608	195,012	195,934
Teekay Tankers[(2)]				
Conventional Tankers[(1)]	139,621	107,594	304,571	211,472
Teekay Parent				

Offshore Production	58,600	66,394	113,806	135,327
Conventional Tankers(1)	9,534	18,413	23,584	34,886
Other	14,970	17,153	43,440	35,913
	83,104	101,960	180,830	206,126
Eliminations and other	(18,811)	(26,599)	(42,858)	(51,090)
	587,619	592,797	1,228,727	1,138,659

(1) Certain vessels are chartered between the Daughter Companies and Teekay Parent. The amounts in the table below represent revenue earned by each segment from other segments within the group. Such intersegment revenue for the three and six months ended June 30 is as follows:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Teekay Offshore - Offshore Logistics	10,129	9,245	18,508	18,511
Teekay Offshore - Conventional Tankers	—	8,245	6,410	16,307
Teekay LNG - Liquefied Gas Carriers	8,933	10,600	18,646	20,009
Teekay Tankers - Conventional Tankers	2,453	—	4,988	—
	21,515	28,090	48,552	54,827

(2) Financial information for Teekay Tankers includes operations of the SPT Explorer and Navigator Spirit from December 18, 2015, the date Teekay Tankers acquired the vessels from Teekay Offshore.

The following table includes results for the Company's income from vessel operations by segment for the three and six months ended June 30, 2016 and 2015:

	Income (Loss) from Vessel Operations(1)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Teekay Offshore				
Offshore Logistics	(11,954)	45,908	30,552	78,681
Offshore Production	36,412	46,602	76,024	78,685
Conventional Tankers	(187)	3,902	5,994	8,096
	24,271	96,412	112,570	165,462
Teekay LNG				
Liquefied Gas Carriers	42,484	37,821	82,673	75,818
Conventional Tankers	5,070	6,035	(18,136)	13,135
	47,554	43,856	64,537	88,953
Teekay Tankers(2)				
Conventional Tankers	30,751	43,668	84,589	83,972
Teekay Parent				
Offshore Production	(8,343)	(10,091)	(26,043)	(22,239)
Conventional Tankers	(12,176)	2,414	(13,281)	3,516
Other	(8,277)	(2,659)	(16,254)	(8,612)
	(28,796)	(10,336)	(55,578)	(27,335)
Eliminations and other	2,198	1,917	5,185	1,890
	75,978	175,517	211,303	312,942

(1)

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

(2) Financial information for Teekay Tankers includes operations of the SPT Explorer and Navigator Spirit from December 18, 2015, the date Teekay Tankers acquired the vessels from Teekay Offshore.

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

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

	June 30, 2016 $	December 31, 2015 $
Teekay Offshore - Offshore Logistics	2,634,188	2,591,489
Teekay Offshore - Offshore Production	2,710,632	2,717,193
Teekay Offshore - Conventional Tankers	14,552	63,900
Teekay LNG - Liquefied Gas Carriers	3,703,244	3,550,396
Teekay LNG - Conventional Tankers	211,282	360,527
Teekay Tankers - Conventional Tankers	2,005,712	2,073,059
Teekay Parent - Offshore Production	670,632	710,533
Teekay Parent - Conventional Tankers	120,642	142,236
Teekay Parent - Other	18,302	17,256
Cash	789,708	678,392
Other assets not allocated	230,614	301,586
Eliminations	(146,509)	(145,319)
Consolidated total assets	12,962,999	13,061,248

4. Investments

a) Teekay LNG - Bahrain LNG Joint Venture

In December 2015, Teekay LNG entered into an agreement with National Oil & Gas Authority (or Nogaholding), Samsung C&T (or Samsung) and Gulf Investment Corporation (or GIC) to form a joint venture, Bahrain LNG W.L.L. (or the Bahrain LNG Joint Venture), for the development of an LNG receiving and regasification terminal in Bahrain. The Bahrain LNG Joint Venture is a joint venture between Nogaholding (30%), Teekay LNG (30%), Samsung (20%) and GIC (20%). The project will include an offshore LNG receiving jetty and breakwater, an adjacent regasification platform, subsea gas pipelines from the platform to shore, an onshore gas receiving facility, and an onshore nitrogen production facility with a total LNG terminal capacity of 800 million standard cubic feet per day and will be owned and operated under a 20-year agreement commencing in late-2018 with an estimated fully-built up cost of approximately $885.0 million, which will be funded by the Bahrain LNG Joint Venture through a combination of equity capital and project-level debt through a consortium of regional and international banks. Teekay LNG will supply a floating storage unit (or FSU) in connection with this project, which will be modified specifically from one of the Teekay LNG's nine M-type, Electronically Controlled Gas Injection (or MEGI) LNG carrier newbuildings ordered from Daewoo Shipbuilding & Marine Engineering Co., through a 20-year time-charter contract with the Bahrain LNG Joint Venture.

b) Teekay Tankers - Principal Maritime

In August 2015, Teekay Tankers agreed to acquire 12 modern Suezmax tankers from Principal Maritime Tankers Corporation (or Principal Maritime). All 12 of the vessels were delivered in 2015 for a total purchase price of $661.3 million, consisting of $612.0 million in cash and approximately 7.2 million shares of Teekay Tankers' Class A common stock with a value of $49.3 million. To finance the cash portion of the acquisition price, Teekay Tankers secured a $397.2 million loan facility which matured in January 2016, and which was refinanced as part of a comprehensive Teekay Tankers refinancing in January 2016 (see note 8). The loan was fully drawn as of December 31, 2015. In addition, Teekay Tankers issued approximately 13.6 million shares of its Class A common stock for net proceeds of approximately $90.6 million, including approximately 4.5 million shares which were issued to Teekay

Parent. Teekay Tankers financed the remainder of the cash purchase price with existing liquidity.

c) Teekay Tankers - Ship-to-Ship Transfer Business

In July 2015, Teekay Tankers acquired a ship-to-ship transfer business (or SPT) from a company jointly-owned by Teekay and a Norway-based marine transportation company, I.M. Skaugen SE, for a cash purchase price of $47.3 million (including $1.8 million for working capital). To finance this acquisition, Teekay subscribed for approximately 6.5 million shares of Teekay Tankers' Class B common stock at a subscription price of approximately $6.99 per share. SPT provides a full suite of ship-to-ship transfer services in the oil, gas and dry bulk industries. In addition to full service lightering and lightering support, SPT also provides consultancy, terminal management and project development services. This acquisition establishes Teekay Tankers as a leading global company in the ship-to-ship (or STS) transfer business, which is expected to increase Teekay Tankers' fee-based revenue and its overall fleet utilization. As at July 31, 2015, SPT owned and operated a fleet of six STS support vessels and had one chartered-in Aframax tanker.

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

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The following table summarizes the final estimates of fair values of the SPT assets acquired and liabilities assumed by Teekay Tankers on the acquisition date. Such estimates of fair value were finalized in the first quarter of 2016 and resulted in an increase in goodwill of $8.1 million and a decrease in intangible assets by $8.4 million from preliminary estimates. Such changes did not have a material impact to the Company's statements of loss for the three and six months ended June 30, 2016.

	As at July 31, 2015
ASSETS	$
Cash, cash equivalents and short-term restricted cash	1,292
Accounts receivable	10,332
Prepaid expenses and other current assets	3,763
Vessels and equipment	6,475
Other assets	143
Intangible assets subject to amortization	
Customer relationships(1)	17,901
Customer contracts(1)	4,599
Goodwill(2)	8,059
Total assets acquired	52,564
LIABILITIES	
Accounts payable	(3,650)
Accrued liabilities	(3,276)
Total liabilities assumed	(6,926)
Net assets acquired(3)	45,638

(1) The customer relationships and customer contracts are being amortized over a weighted average amortization period of 10 years and 7.6 years, respectively. As at June 30, 2016, the gross carrying amount, accumulated amortization and net carrying amount were $22.5 million, $3.1 million and $19.4 million, respectively.

(2) Goodwill recognized from this acquisition attributed to the Company's Teekay Tankers Segment - Conventional tankers.

(3) Prior to the SPT acquisition date, SPT had in-chartered the SPT Explorer from the Company. Of the SPT acquisition purchase price, $1.4 million was allocated to the settlement of this pre-existing relationship. Such amount has been accounted for as a reduction to revenue on the SPT acquisition date.

Operating results of SPT are reflected in the Company's consolidated financial statements commencing July 31, 2015, the effective date of acquisition. Pro forma revenues and net income as if the acquisition of SPT had occurred at the beginning of 2015 would not be materially different than actual operating results reported. The Company's prior 50% interest in SPT was remeasured to its estimated fair value on the acquisition date and the resulting gain of $8.7 million was recognized in equity income in July 2015.

5. Equity Financing Transactions of the Daughter Companies

During the six months ended June 30, 2016, Teekay Offshore completed private placements of preferred units, which were sold together with warrants exercisable for common units, and common units.

	Total Proceeds Received $	Less: Teekay Corporation Portion	Offering Expenses $	Net Proceeds Received $

		$		
Six Months ended June 30, 2016				
Teekay Offshore Preferred Units Offering	100,000	(26,000)	(2,750)	71,250
Teekay Offshore Common Units Offering	102,041	(2,041)	(2,550)	97,450

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

Teekay purchased $26.0 million or 1,040,000 10.50% Series D Preferred Units of Teekay Offshore. Teekay also received 1,170,000 of the $4.55 Warrants and 585,000 of the $6.05 Warrants. The purchase of Teekay Offshore Series D Preferred Units has been accounted for as an equity transaction. Therefore, no gains or losses were recognized in the Company’s consolidated statements of (loss) income as a result of this purchase.

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

6. Vessel Charters

The minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at June 30, 2016, for the Company’s chartered-in and chartered-out vessels were as follows:

Vessel Charters(1)	Remainder of 2016	2017	2018	2019	2020
	(in millions of U.S. Dollars)				
Charters-in – operating leases	50.6	74.6	28.1	21.7	8.3
Charters-in – capital leases(2)	11.5	46.2	42.6	15.3	15.3
	62.1	120.8	70.7	37.0	23.6
Charters-out – operating leases(3)	696.6	1,412.9	1,214.1	993.4	903.0
Charters-out – direct financing leases	39.6	208.8	174.6	40.0	40.1
	736.2	1,621.7	1,388.7	1,033.4	943.1

(1) 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. This table does not include Teekay LNG’s minimum charter hire payments to be paid and received under these leases for the Tangguh LNG Carriers (which are described in Note 9 to the audited consolidated financial statements filed with the Company’s Annual Report on Form 20-F for the

year ended December 31, 2015).

(2) As at June 30, 2016, Teekay LNG was a party to capital leases on two Suezmax tankers, the Teide Spirit and the Toledo Spirit. Under these capital leases, the owner has the option to require Teekay LNG to purchase the two vessels. The charterer, who is also the owner, also has the option to cancel the charter contracts. The amounts in the table assume the owner will not exercise its options to require Teekay LNG to purchase either of the vessels from the owner, but rather it assumes the owner will cancel the charter contracts when the cancellation right is first exercisable, which is the thirteenth year anniversary of each respective contract in 2017 and 2018.

In February 2016, Teekay LNG took delivery of a LNG carrier newbuilding, the Creole Spirit. Teekay LNG sold this vessel to a third party and leased it back under a 10-year bareboat charter contract ending in 2026. The bareboat charter contract is accounted for as a capital lease. The obligations of Teekay LNG under the bareboat charter contract are guaranteed by Teekay LNG. In addition, the guarantee agreement requires Teekay LNG to maintain minimum levels of tangible net worth and aggregate liquidity, and not exceed a maximum amount of leverage.

(3) The minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after June 30, 2016, revenue from unexercised option periods of contracts that existed on June 30, 2016 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.

7. Vessel Sales and Asset Impairments

During the three and six months ended June 30, 2016, Teekay Offshore canceled the UMS construction contracts for its two UMS newbuildings. As a result, the carrying value of these two UMS newbuildings were written down to $nil. The Company's consolidated statements of (loss) income for the three and six months ended June 30, 2016 includes a $43.7 million write-down related to these two UMS newbuildings. The write-down is included in the Company’s Teekay Offshore Segment - Offshore Logistics.

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The Company’s consolidated statements of loss for the three and six months ended June 30, 2016 includes a $12.5 million write-down of one VLCC tanker. The VLCC tanker was held for sale at June 30, 2016 and the sale is expected to be completed in the fourth quarter of 2016. The vessel was written down to its agreed sales price to a third party. The write-down is included in the Company's Teekay Parent Segment - Conventional Tankers.

The Company’s consolidated statements of loss for the three and six months ended June 30, 2016 includes a $6.4 million write-down of one Medium Range (or MR) tanker in Teekay Tankers. The MR tanker was held for sale at June 30, 2016 and is expected to deliver in the third quarter of 2016. The vessel was written down to its agreed sales price to a third party. The write-down is included in the Company's Teekay Tankers Segment - Conventional Tankers.

During February and March 2016, Centrofin Management Inc. (or Centrofin), the charterer for both the Bermuda Spirit and Hamilton Spirit Suezmax tankers, exercised its options to purchase both the Bermuda Spirit and Hamilton Spirit as permitted under the charter contract agreements. The vessels delivered to Centrofin during April and May 2016. Upon Centrofin exercising its purchase options, the vessels and remaining term of the charter contracts have been reclassified as sales-type leases by Teekay LNG, which resulted in the recognition of an accounting loss of $27.4 million in the first quarter of 2016. This loss is included in the Company’s Teekay LNG Segment - Conventional Tankers.

During the six months ended June 30, 2016, Teekay Offshore sold a 1992-built shuttle tanker, the Navion Torinita, for net proceeds of $5.0 million, which was the approximate carrying value of the vessel at the time of sale. During the three months ended March 31, 2015, the carrying value of this shuttle tanker was written down to its estimated fair value, using an appraised value as a result of the expected sale of the vessel and the vessel was classified as held for sale on the Company’s consolidated balance sheet as at December 31, 2015. The Company’s consolidated statements of (loss) income for the six months ended June 30, 2015 includes a $1.7 million write-down related to this vessel. The write-down is included in the Company’s Teekay Offshore Segment - Offshore Logistics.

In March 2016, the time-charter contract with a subsidiary of the Company for a 2004-built conventional tanker, the Kilimanjaro Spirit, was terminated by Teekay Offshore. Immediately following the charter termination, Teekay Offshore sold the Kilimanjaro Spirit for net proceeds of $26.7 million and also sold a 2003-built conventional tanker, the Fuji Spirit, for net proceeds of $23.7 million, which were the approximate carrying values of the vessels at the time of sale. Both vessels were classified as held for sale on the Company’s consolidated balance sheet as at December 31, 2015. As part of the sale of these vessels, Teekay Offshore is in-chartering these vessels for a period of three years each, both with an additional one-year extension option. One vessel is fixed on a two-year time-charter-out contract which commenced during the second quarter of 2016, and the other vessel is currently trading in the spot conventional tanker market.

During the six months ended June 30, 2015, the carrying value of one of Teekay Offshore's 1999-built shuttle tankers was written down to its estimated fair value, using an appraised value. The write down was a result of a recent change in the operating plan of the vessel. The Company’s consolidated statements of (loss) income for the six months ended June 30, 2015, includes a $13.8 million write-down related to this vessel. The write-down is included in the Company’s Teekay Offshore Segment - Offshore Logistics.

During the six months ended June 30, 2015, Teekay Offshore sold a 1997-built shuttle tanker, the Navion Svenita, for net proceeds of $8.6 million. The Company’s consolidated statements of (loss) income for the six months ended June 30, 2015 includes a $1.6 million gain related to the sale of this vessel. This gain is included in the Company’s Teekay Offshore Segment - Offshore Logistics.

8. Long-Term Debt

	June 30, 2016	December 31, 2015
	$	$
Revolving Credit Facilities	1,365,156	1,500,848
Senior Notes (8.5%) due January 15, 2020	592,657	592,657

Norwegian Kroner-denominated Bonds due through May 2020	597,845	621,957
U.S. Dollar-denominated Term Loans due through 2028	3,828,077	4,020,665
U.S. Dollar Bonds due through 2024	474,839	502,449
Euro-denominated Term Loans due through 2023	239,792	241,798
Total Principal	7,098,366	7,480,374
Unamortized discount and debt issuance costs	(97,729)	(96,288)
Total debt	7,000,637	7,384,086
Less current portion	(1,059,354)	(1,106,104)
Long-term portion	5,941,283	6,277,982

As of June 30, 2016, the Company had 13 revolving credit facilities (or the Revolvers) available, which, as at such date, provided for aggregate borrowings of up to $1.7 billion, of which $0.3 billion was undrawn. Interest payments are based on LIBOR plus margins; at June 30, 2016 and December 31, 2015, the margins ranged between 0.45% and 4.00% and between 0.45% and 3.95%, respectively. At June 30, 2016 and December 31, 2015, the three-month LIBOR was 0.63% and 0.61%, respectively. The aggregate amount available under the Revolvers is scheduled to decrease by $402.6 million (remainder of 2016), $291.0 million (2017), $586.4 million (2018), $43.0 million (2019) and $369.1 million (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 70 of the Company’s vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts. Included in other security, as of June 30, 2016, are 38.2 million common units of Teekay Offshore, 25.2 million common units of Teekay LNG and 16.8 million Class A common shares in Teekay Tankers, which secure a $150.0 million revolving credit facility.

The Company’s 8.5% senior unsecured notes (or the 8.5% Notes) are due January 15, 2020 with an original principal amount of $450 million (The Original Notes). The Original Notes issued on January 27, 2010 were sold at a price equal to 99.181% of par. In November 2015, the Company issued an aggregate principal amount of $200 million of the Company’s 8.5% senior unsecured notes due on January 15, 2020 (or the Notes) at 99.01% of face value, plus accrued interest from July 15, 2015. The Notes are an additional issuance of the Company's Original Notes (cumulatively referred to as the 8.5% Notes). The Notes were issued under the same indenture governing the Original Notes, but will not be fungible with the Original Notes unless and until such time as the Notes are exchanged for additional Original Notes pursuant to the terms of a registration rights agreement. On August 16, 2016 the Company commenced a registered exchange offer to exchange up to $200 million of the Original Notes for a like principal amount of newly issued, registered 8.5% Senior Notes due 2020. The discount on the 8.5% Notes is accreted through the maturity date of the notes using the effective interest rate of 8.670% per year.

The Company capitalized issuance costs of $13.3 million, which will be amortized to interest expense over the term of the 8.5% Notes. As of June 30, 2016, the unamortized balance of the capitalized issuance cost was $6.6 million which is recorded in long-term debt in the consolidated balance sheet. The 8.5% Notes rank equally in right of payment with all of Teekay's existing and future senior unsecured debt and senior to any future subordinated debt of Teekay. The 8.5% Notes are not guaranteed by any of Teekay's subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities of its subsidiaries.

The Company may redeem the 8.5% Notes in whole or in part at any time before their maturity date at a redemption price equal to the greater of (i) 100% of the principal amount of the 8.5% Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 8.5% Notes to be redeemed (excluding accrued interest), discounted to the redemption date on a semi-annual basis, at the treasury yield plus 50 basis points, plus accrued and unpaid interest to the redemption date. During 2014, the Company repurchased the principal amount of $57.3 million of the 8.5% Notes at a premium of $7.7 million and such amount was reflected in other income in the Company’s consolidated statements of (loss) income.

Teekay Offshore and Teekay LNG issued in the Norwegian bond market a total of NOK 5.5 billion of senior unsecured bonds that mature through May 2020. Senior unsecured bonds in an aggregate principal amount of NOK 500 million matured in January 2016. As of June 30, 2016, the carrying amount of the remaining NOK 5.0 billion senior unsecured bonds was $597.8 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin which ranges from 3.70% to 5.75%. The Company entered into cross currency swaps to swap all interest and principal payments of the bonds into US Dollars, with the interest payments fixed at a rates ranging from 5.92% to 8.84%, and the transfer of the principal amount fixed at $816.1 million upon maturity in exchange for NOK 5.0 billion (see Note 15). In June 2016 Teekay Offshore amended certain of the bond agreements to extend the maturity dates of the senior unsecured bonds. The maturity date for bonds in an aggregate principal amount of NOK 600 million was extended to November 2018, with two interim installments of NOK 180 million each due in October 2016 and October 2017. The maturity date for bonds in an aggregate principal amount of NOK 800 million was extended to December 2018, with one interim installment of NOK 160 million in January 2018 with the remaining balance of NOK 640 million repayable in December 2018 at 103%.

As of June 30, 2016, the Company had 23 U.S. Dollar-denominated term loans outstanding, which totaled $3.8 billion in aggregate principal amount (December 31, 2015 – $4.0 billion). Certain of the term loans with a total outstanding principal balance of $37.7 million as at June 30, 2016 (December 31, 2015 – $48.6 million) bear interest at a weighted-average fixed rate of 2.9% (December 31, 2015 – 4.0%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At June 30, 2016 and December 31, 2015, the margins ranged between 0.3% and 3.50%. At June 30, 2016 and December 31, 2015, the three-month LIBOR was 0.63% and 0.61%, 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 20 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 44 (December 31, 2015 – 67) of the Company’s vessels, together with certain other security. In addition, at June 30, 2016, all but $60.4 million (December 31, 2015 – $64.6 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

During May 2014, Teekay Offshore issued $300 million of five-year senior unsecured bonds that mature in July 2019 in the U.S. bond market. As of June 30, 2016, the carrying amount of the bonds was $300 million. The bonds were listed on the New York Stock Exchange in June 2014. The interest payments on the bonds are fixed at a rate of 6.0%.

In September 2013 and November 2013, Teekay Offshore issued a total of $174.2 million of ten-year senior bonds that mature in December 2023 and that were issued in a U.S. private placement to finance the Bossa Nova Spirit and the Sertanejo Spirit shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security. Teekay Offshore made semi-annual repayments on the bonds and as of June 30, 2016, the carrying amount of the bonds was $149.4 million.

In February 2015, Teekay Offshore issued $30.0 million in senior bonds that mature in June 2024 in a U.S. private placement. As of June 30, 2016, the carrying amount of the bonds was $25.4 million. The interest payments on the bonds are fixed at an annual rate of 4.27%. The bonds are collateralized by first-priority mortgage on the Dampier Spirit FSO unit together with other related security and are guaranteed by Teekay Offshore.

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Teekay LNG has two Euro-denominated term loans outstanding, which, as at June 30, 2016, totaled 215.9 million Euros ($239.8 million) (December 31, 2015 – 222.7 million Euros ($241.8 million)). Interest payments on the loans are based on EURIBOR plus margins. At June 30, 2016 and December 31, 2015, the margins ranged between 0.6% and 2.25% and the one-month EURIBOR at June 30, 2016 was (0.36)% (December 31, 2015 – (0.21%)). The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023, are collateralized by first-priority mortgages on two of the Company's vessels, together with certain other security, and are guaranteed by Teekay LNG and one of its subsidiaries.

Both Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Company's NOK-denominated bonds, the Company's Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Company's cross currency swaps, the Company recognized foreign exchange losses of $15.2 million (2015 – $1.6 million loss) and $25.7 million (2015 – $15.9 million gain) during the three and six months ended June 30, 2016, respectively.

The weighted-average effective interest rate on the Company's aggregate long-term debt as at June 30, 2016 was 3.7% (December 31, 2015 – 3.4%). This rate does not include the effect of the Company's interest rate swap agreements (see Note 15).

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to June 30, 2016, including the impact of refinancing $150 million of an existing revolving credit facility relating to Teekay Parent's three directly-owned FPSO units, are $0.5 billion (remainder of 2016), $1.1 billion (2017), $1.7 billion (2018), $1.0 billion (2019), $1.1 billion (2020) and $1.7 billion (thereafter).

Among other matters, the Company's long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and 10 loan agreements require the maintenance of vessel market value to loan ratios. As at June 30, 2016, these ratios ranged from 119.5% to 201.8% compared to their minimum required ratios of 105% to 125%. The vessel values used in these ratios are the appraised values prepared by the Company based on second-hand sale and purchase market data. Changes in the conventional tanker, FPSO, towage, UMS, and shuttle tankers markets and a weakening of the LNG/LPG carrier market could negatively affect the Company's compliance with these ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at June 30, 2016 and December 31, 2015, this amount was $100.0 million. Most of the loan agreements also require that the Company maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity, in amounts ranging from 5% to 7.5% of total debt. As at June 30, 2016, this aggregate amount was $384.8 million (December 31, 2015 - $410.5 million). As at June 30, 2016, the Company was in compliance with all covenants required by its credit facilities and other long-term debt.

9. Capital Stock

The authorized capital stock of Teekay at June 30, 2016 and December 31, 2015 was 25 million shares of preferred stock, with a par value of $1 per share, and 725 million shares of common stock, with a par value of $0.001 per share. As at June 30, 2016, Teekay had no shares of preferred stock issued. During the six months ended June 30, 2016, Teekay issued 0.1 million shares of common stock upon the exercise or issuance of stock options, restricted stock units and restricted stock awards. During the six months ended June 30, 2016, Teekay issued approximately 12.0 million shares of common stock in a private placement for net proceeds of approximately $96.2 million.

During the six months ended June 30, 2016 and 2015, the Company granted 916,015 and 265,135 stock options with exercise prices of $9.44 and $43.99 per share, respectively, 243,296 and 63,912 restricted stock units with fair values of $2.3 million and $2.9 million, respectively, 311,691 and 61,774 performance shares with fair values of $3.6 million and $3.4 million, respectively, and 67,000 and 22,502 shares of restricted stock awards with fair values of $0.6 million and $1.0 million, respectively, to certain of the Company's employees and directors. Each stock option has a ten-year term and vests equally over three years from the grant date. Each restricted stock unit, restricted stock award and performance share is equal in value to one share of the Company's common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date and the performance shares vest three years from the grant date. Upon vesting, the value of the restricted stock units, restricted stock awards and performance shares are paid to each grantee in the form of shares or cash. The number of performance share units that vest will range from zero to a multiple of the original number granted, based on certain performance and market conditions.

The weighted-average grant-date fair value of stock options granted during March 2016 was $3.60 per stock option. The fair value of each stock option granted was estimated on the grant date using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the stock options granted: expected volatility of 55.1%; expected life of 5.5 years; dividend yield of 3.2%; risk-free interest rate of 1.3%; and estimated forfeiture rate of 7.1%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

Share-based Compensation of Subsidiaries

During the six months ended June 30, 2016 and 2015, 76,084 and 14,603 common units of Teekay Offshore, 32,723 and 10,447 common units of Teekay LNG and 9,358 and 51,948 shares of Class A common stock of Teekay Tankers, respectively, with aggregate values of $0.7 million and $1.0 million, respectively, were granted and issued to the non-management directors of the general partners of Teekay Offshore and Teekay LNG and the non-management directors of Teekay Tankers as part of their annual compensation for 2016 and 2015.

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

Teekay Offshore, Teekay LNG and Teekay Tankers grant equity-based compensation awards as incentive-based compensation to certain employees of Teekay's subsidiaries that provide services to Teekay Offshore, Teekay LNG and Teekay Tankers. During March 2016 and 2015, Teekay Offshore and Teekay LNG granted phantom unit awards and Teekay Tankers granted restricted stock-based compensation awards with respect to 599,479 and 102,834 units of Teekay Offshore, 131,062 and 32,054 units of Teekay LNG and 275,848 and 192,387 Class A common shares of Teekay Tankers, respectively, with aggregate grant date fair values of $4.8 million and $4.2 million, respectively, based on Teekay Offshore, Teekay LNG and Teekay Tankers' closing unit or stock prices on the grant dates. Each phantom unit or restricted stock unit is equal in value to one of Teekay Offshore's, Teekay LNG's or Teekay Tankers' common units or common shares plus reinvested distributions or dividends from the grant date to the vesting date. The awards vest equally over three years from the grant date. Any portion of an award that is not vested on the date of a recipient's termination of service, is canceled, unless their termination arises as a result of the recipient's retirement, in which case, the award will continue to vest in accordance with the vesting schedule. Upon vesting, the awards are paid to a substantial majority of the grantees in the form of common units or common shares, net of withholding tax.
During March 2016, Teekay Tankers granted 216,043 stock options with an exercise price of $3.74 per share to an officer of Teekay Tankers. Each stock option granted in March 2016 has a ten-year term and vests equally over three years from the grant date. During March 2015, Teekay Tankers granted 58,434 stock options with an exercise price of $5.39 per share to an officer of Teekay Tankers. Each stock option granted in March 2015 has a ten-year term and vests equally over three years from the grant date.

10. Commitments and Contingencies

a. Vessels Under Construction

As at June 30, 2016, the Company was committed to the construction of 10 LNG carriers, four long-haul towage vessels, three shuttle tankers, one FSO conversion and one FPSO upgrade for a total cost of approximately $3.0 billion, excluding capitalized interest and other miscellaneous construction costs. One LNG carrier delivered in July 2016. Three LNG carriers are scheduled for delivery in 2017, four LNG carriers are scheduled for delivery in 2018 and two LNG carriers are scheduled for delivery in 2019. Four long-haul towage vessels are scheduled for delivery during the remainder of 2016 to early-2017, the one FSO conversion is scheduled for completion in early-2017 and the one FPSO upgrade is scheduled for completion in early-2017. As at June 30, 2016, payments made towards these commitments totaled $852.1 million (excluding $10.9 million of capitalized interest and other miscellaneous construction costs). As at June 30, 2016, the remaining payments required to be made under these newbuilding and conversion capital commitments were $428.2 million (remainder of 2016), $932.2 million (2017), $597.4 million (2018), and $238.0 million (2019). During the second quarter of 2016, Teekay Offshore's subsidiary, Logitel Offshore, canceled the UMS construction contracts for the two remaining UMS newbuildings, the Stavanger Spirit and the Nantong Spirit (see note 10c).

b. Joint Ventures

Teekay LNG's share of commitments to fund newbuilding and other construction contract costs as at June 30, 2016 are as follows:

	Total	Remainder of 2016	2017	2018	2019	2020
	$	$	$	$	$	$
Equity accounted joint ventures (i)	1,509,394	153,174	325,496	548,923	278,801	203,000

(i) The commitment amounts relating to Teekay LNG's share of costs for newbuilding and other construction contracts in Teekay LNG's equity accounted joint ventures are based on Teekay LNG's ownership percentage in each respective joint venture as of June 30, 2016. These commitments are described in more detail in Note 16 of the

Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year-ended December 31, 2015. As of June 30, 2016, based on the Teekay LNG's ownership percentage in each respective joint venture, Teekay LNG's equity accounted joint ventures have secured $197 million of financing related to $187 million of LNG and LPG carrier newbuilding commitments included in the table above.

In October 2014, Teekay Offshore sold a 1995-built shuttle tanker, the Navion Norvegia, to a 50/50 joint venture of Teekay Offshore and Odebrecht Oil and Gas S.A. (or OOG). The vessel is committed to a new FPSO conversion for the Libra field located in the Santos Basin offshore Brazil. The conversion project will be completed at Sembcorp Marine's Jurong Shipyard in Singapore and the FPSO unit is scheduled to commence operations in early-2017 under a 12-year fixed-rate contract with a consortium led by Petroleo Brasileiro SA (or Petrobras). The FPSO conversion is expected to cost approximately $1.0 billion. As at June 30, 2016, payments made by the joint venture towards these commitments totaled $390.2 million and the remaining payments required to be made by the joint venture are $415.5 million (remainder of 2016) and $198.9 million (2017). Teekay Offshore intends to finance its share of the conversion through existing long-term debt financing within the joint venture, and to a lesser extent, through existing liquidity. The joint venture secured a long-term debt facility in 2015 providing total borrowings of up to $804 million for the FPSO conversion.

c. Legal Proceedings and Claims

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

Cancellation of two UMS newbuilding contracts

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

In February 2016, a special committee of the Board of Directors of Sevan Marine ASA (or Special Committee), responding to allegations made by certain minority shareholders of Sevan Marine ASA (or Sevan), advised Teekay Offshore that they had initiated a review of the legality of the agreements between Sevan and CeFront Technology AS (or CeFront) relating to the transfer to Logitel Offshore Pte. Ltd. or its wholly-owned subsidiaries (collectively Logitel Offshore) in 2013 of two hulls to be converted into UMS, including the $60 million bond loan (of which $41 million was a vendor credit and $19 million was a cash loan) granted by a Sevan affiliate to Logitel (or the 2013 Transaction). The Special Committee also reviewed the legality of the agreements between Sevan and Teekay Offshore entered into in connection with the 2014 transaction whereby Teekay Offshore acquired Logitel from CeFront (or the 2014 Transaction). The Special Committee advised Teekay Offshore that it had obtained legal advice indicating that Sevan had failed to obtain necessary shareholder approvals in connection with both the 2013 Transaction and the 2014 Transaction. The Special Committee also advised Teekay Offshore of its view that the $60 million bond loan to Logitel represents lending to a related party of a Sevan shareholder, which is in breach of Norwegian corporate law. The Special Committee has advised Teekay Offshore that the failure to obtain the necessary shareholder approvals would render certain of the agreements in the Logitel transaction either void or voidable, exposing Teekay Offshore to potential claims for restitution as mandated by Norwegian corporate law. On August 25, 2016, Sevan issued a press release relating to their second quarter earnings in which they advised the market that they will commence legal action against Logitel claiming more than $60 million relating to the bond loan and arbitration against both Logitel and Teekay Offshore claiming approximately $10 million relating to certain payments under an agreement entered into in connection with the 2014 Transaction.

During the second quarter of 2016, Teekay Offshore canceled the UMS construction contracts for the two remaining UMS newbuildings, the Stavanger Spirit and Nantong Spirit. As a result of this cancellation, Teekay Offshore wrote-off $43.7 million of the assets related to these newbuildings and reversed contingent liabilities of $14.5 million associated with the delivery of these assets during the three and six months ended June 30, 2016. The estimate of potential damages for the cancellation of the Stavanger Spirit newbuilding contract is based on the amount due for the final yard installment of approximately $170 million less the estimated fair value of the Stavanger Spirit. Given the unique design of the vessel as well as the lack of recent sale and purchase transactions for this type of asset, the value of this vessel, and thus ultimately the amount of potential damages that may result from a cancellation, is uncertain. The estimate of potential damages for the cancellation of the Nantong Spirit newbuilding contract is based upon estimates of a number of factors, which will ultimately be decided upon between the parties, including accumulated costs incurred by COSCO, sub-supplier contract cancellation costs, as well as how such costs are treated under the termination provisions in the contract. Teekay Offshore estimates that the amount of potential damages related to the cancellation of the Nantong Spirit contract could range between $10 million and $40 million.

As at June 30, 2016, Teekay Offshore has accrued $58 million in aggregate related to the above potential claims from Sevan and COSCO. Pursuant to the Stavanger Spirit newbuilding contract and related agreements, COSCO only has recourse to the single purpose subsidiary that is a party to the Stavanger Spirit newbuilding contract and its immediate parent company, Logitel Offshore Pte. Ltd., for damages incurred. Logitel Offshore Pte. Ltd. owns a 100% direct interest in a subsidiary that owns the Arendal Spirit UMS and the subsidiary that is a party the existing charter contract for the Arendal Spirit UMS. Pursuant to the Nantong Spirit newbuilding contract, COSCO only has recourse to the single purpose subsidiary that is a party to the Nantong Spirit newbuilding contract.

Piranema Spirit FPSO Contract

In March 2016, Petrobras claimed that Teekay Offshore's November 2011 cessation of paying certain agency fees with respect to the Piranema Spirit FPSO unit's employment should have resulted in a corresponding 2% rate reduction on the FPSO contract with Petrobras. Teekay Offshore has estimated the maximum amount of the claim at $7.5 million, consisting of $5.0 million from a return of 2% of the charter hire previously paid by Petrobras to Teekay Offshore for the period from November 2011 up to June 30, 2016, which is the amount accrued by Teekay Offshore at June 30, 2016, which has been recorded as a reduction to revenue, and $2.5 million from a 2% reduction of future charter hire to the end of the term of the FPSO contract with Petrobras.

STX Offshore & Shipbuilding Co.

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

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

The trial in the English High Court in respect of the Option Agreement commenced on April 11, 2016. STX has filed for bankruptcy protection and as of June 30, 2016 all Korean enforcement actions are stayed. STX has also instructed its London lawyers to have that protection recognized in England and Wales. While Teekay Tankers is awaiting the decision of the High Court on the Option Agreements, Teekay Tankers will not be in a position to take any further action on enforcement and recognition in the UK or Korea while the bankruptcy protection remains in place. No amounts have been recorded as receivable in respect of these awards due to uncertainty of their collection.

Class Action Complaint

Following the Company's announcement in December 2015 that its Board of Directors had approved a plan to reduce the Company's quarterly dividend from $0.55 per share to $0.055 per share, commencing with the fourth quarter of 2015 dividend payable in February 2016 and the subsequent decline of the price of the Company's common stock, a class action complaint was filed on March 1, 2016 in the U.S. District Court for the District of Connecticut against the Company and certain of its officers. The complaint includes claims that the Company and certain of its officers violated Section 10(b) of the Securities Exchange Act 1934 and Rule 10b-5 promulgated thereunder. In general, the complaint alleges the Company and certain of its officers violated federal securities laws by making materially false and misleading statements regarding the Company's ability and intention to maintain a quarterly dividend of at least $0.55 per share, thereby artificially inflating the price of its common stock. The plaintiffs are seeking unspecified monetary damages, including reasonable costs and expenses incurred in this action. The Company plans to vigorously defend against the claims. Based on the early stage of this action and evaluation of the facts available at this time, the amount or range of reasonably possible losses to which the Company is exposed cannot be estimated and the ultimate resolution of this matter and the associated financial impact to the Company, if any, remains uncertain at this time. The Company maintains a Directors and Officers insurance policy that provides a fixed amount of coverage for such claims, subject to coverage defenses, and a deductible to be paid by the Company.

Teekay Nakilat Capital Lease

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

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

d. Redeemable Non-Controlling Interest

During 2010, an unrelated party contributed a shuttle tanker with a value of $35.0 million to a subsidiary of Teekay Offshore for a 33% equity interest in the subsidiary. The non-controlling interest owner of Teekay Offshore's 67%-owned subsidiary holds a put option which, if exercised, would obligate Teekay Offshore to purchase the non-controlling interest owner's 33% share in the entity for cash in accordance with a defined formula. This redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at June 30, 2016.

In July 2015, Teekay Offshore issued 10.4 million 8.60% Series C Cumulative Convertible Perpetual Preferred Units (or Series C Preferred Units) in a private placement for net proceeds of approximately $249.8 million. The terms of the Series C Units provided that at any time after the 18-month anniversary of the closing date, at the election of each holder, the Series C Preferred Units could be converted on a one-for-one basis into common units of Teekay Offshore. In addition, if after the three-year anniversary of the closing date, the volume weighted average price of the common units exceeds 150% of the issuance price, Teekay Offshore has the option to convert the Series C Preferred Units into common units. Distributions on the Series C Preferred Units are cumulative from the date of original issue and are payable quarterly in arrears, when, as and if declared by the board of directors of the general partner. The Series C Preferred Units may be redeemed in cash if a change of control occurs in Teekay Offshore.

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

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

In June 2016, Teekay Offshore issued 4,000,000 10.50% Series D Preferred Units, of which 1,040,000 of the Series D Preferred Units were purchased by Teekay. Teekay Offshore will pay to holders of the Series D Preferred Units a cumulative, quarterly cash distribution in arrears at an annual rate of 10.5%. However, under the terms of the Series D Preferred Units, Teekay Offshore may elect, in its sole discretion, to pay the quarterly distributions for the first eight consecutive quarters following issuance with common units in cash, common units (at a discount of 4% to the 10-trading day volume weighted average price ending on the distribution declaration date) or a combination of cash and common units (at the same discount), and thereafter the distributions shall be paid in cash. The Series D Preferred Units have no mandatory redemption date, but they are redeemable at Teekay Offshore's option after the five-year anniversary of the Series D Preferred Units issuance date for a 10% premium to the liquidation value and for a 5% premium to the liquidation value any time after the six-year anniversary of the Series D Preferred Units issuance date. The Series D Preferred Units are exchangeable into common units of Teekay Offshore at the option of the holder at any time after five years, based on the 10-trading day volume weighted average price at the time of the notice of exchange. A change of control event involving the purchase of at least 90% of the common units would result in the Series D Preferred Units being redeemable for cash. As a result, the Series D Preferred Units, net of Teekay's units, are included on the Company’s consolidated balance sheet as part of temporary equity which is above the equity

section but below the liabilities section.
In June 2016, in connection with completing its financing initiatives, Teekay Offshore agreed that, until Teekay Offshore repays amounts outstanding under its Norwegian Kroner bonds maturing 2018, Teekay Offshore will only pay distributions to holders of Series C-1 Preferred Units and Series D Preferred Units in common units, except that, at any time with respect to the Series C-1 Preferred Units, and at any time after June 29, 2018 with respect to the Series D Preferred Units, Teekay Offshore may pay distributions to holders of Series C-1 Preferred Units and Series D Preferred Units, respectively, in cash, upon condition that the amount of such cash distributions are matched or exceeded by the proceeds of additional equity raised by Teekay Offshore in advance of, or within six months following, payment of the cash distributions.
e. Other
The Company enters into indemnification agreements with certain officers and directors. In addition, the Company enters into other indemnification agreements in the ordinary course of business. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company maintains what it believes is appropriate liability insurance that reduces its exposure and enables the Company to recover future amounts paid up to the maximum amount of the insurance coverage, less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

11. Financial Instruments

a. Fair Value Measurements

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see Note 11 in the Company’s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2015.

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

		June 30, 2016		December 31, 2015	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $
Recurring					
Cash and cash equivalents, restricted cash, and marketable securities	Level 1	933,034	933,034	855,107	855,107
Derivative instruments (note 15)					
Interest rate swap agreements – assets(1)	Level 2	2,122	2,122	6,136	6,136
Interest rate swap agreements – liabilities(1)	Level 2	(521,617)	(521,617)	(370,952)	(370,952)
Cross currency interest swap agreement(1)	Level 2	(258,568)	(258,568)	(312,110)	(312,110)
Foreign currency contracts	Level 2	(3,762)	(3,762)	(18,826)	(18,826)
Stock purchase warrants	Level 3	1,833	1,833	10,328	10,328
Time charter swap agreement	Level 3	1,345	1,345	—	—
Logitel contingent consideration (see below)	Level 3	—	—	(14,830)	(14,830)
Non-recurring					
Vessels and equipment	Level 2	—	—	100,600	100,600
Vessels held for sale (note 7)	Level 2	75,562	75,562	55,450	55,450
Other					
Loans to equity-accounted investees and joint venture partners – Current	(2)	17,740	(2)	7,127	(2)
Loans to equity-accounted investees and joint venture partners – Long-term	(2)	191,271	(2)	184,390	(2)
Long-term receivable included in accounts receivable and other assets(3)	Level 3	14,406	14,366	16,453	16,427
Long-term debt – public (note 8)	Level 1	(1,471,093)	(1,299,169)	(1,493,915)	(1,161,729)
Long-term debt – non-public (note 8)	Level 2	(5,529,544)	(5,383,777)	(5,890,171)	(5,881,483)

(1) The fair value of the Company's interest rate swap agreements at June 30, 2016 includes $18.1 million (December 31, 2015 - $21.7 million) accrued interest expense which is recorded in accrued liabilities on the consolidated balance sheets.

(2) In the consolidated financial statements, the Company’s loans to and equity investments in equity-accounted investees 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.

(3) As at June 30, 2016 the estimated fair value of the non-interest bearing receivable from BG Norge Limited (or BG) was based on the remaining future fixed payments as well as an estimated discount rate. The estimated fair value of this receivable as of June 30, 2016 was $14.4 million (December 31, 2015 – $16.4 million) using a discount rate of 8.0%. As there is no market rate for the equivalent of an unsecured non-interest bearing receivable from BG, the discount rate is based on unsecured debt instruments of similar maturity held, adjusted for a liquidity premium. A higher or lower discount rate would result in a lower or higher fair value asset.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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Time-charter swap agreement - Changes in fair value during the three and six months ended June 30, 2016 for Teekay Tankers' time-charter swap agreement, which is described below and is measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three and Six Months Ended June 30, 2016
	$
Fair value asset - beginning of the period	—
Settlements	(126)
Realized and unrealized gain	1,471
Fair value asset - at the end of the period	1,345

The estimated fair value of the time-charter swap agreement is based in part upon the Company's projection of future Aframax spot market tanker rates, which has been derived from current Aframax spot market tanker rates and estimated future rates, as well as an estimated discount rate. The estimated fair value of the time-charter swap agreement as of June 30, 2016 is based upon an estimated average daily tanker rate of approximately $21,500 over the remaining duration of the contract. In developing and evaluating this estimate, the Company considers the current tanker market fundamentals as well as the short and long-term outlook. A higher or lower average daily tanker rate would result in a higher or lower fair value liability or a lower or higher fair value asset. A higher or lower discount rate would result in a lower or higher fair value asset or liability.
Stock purchase warrants – During January 2014, the Company received from Tanker Investments Ltd. (or TIL) stock purchase warrants entitling it to purchase up to 1.5 million shares of common stock of TIL (see note 15). The estimated fair value of the stock purchase warrants was determined using a Monte-Carlo simulation and is based, in part, on the historical price of common shares of TIL, the risk-free rate, vesting conditions and the historical volatility of comparable companies. The estimated fair value of these stock purchase warrants as of June 30, 2016 is based on the historical volatility of the comparable companies of 52.4%. A higher or lower volatility would result in a higher or lower fair value of this derivative asset.
Changes in fair value during the three and six months ended June 30, 2016 and 2015 for the Company's derivative instruments, the TIL stock purchase warrants, which are described below and are measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Fair value at the beginning of the period	6,107	9,234	10,328	9,314
Unrealized (loss) gain included in earnings	(4,274)	1,817	(8,495)	1,737
Fair value at the end of the period	1,833	11,051	1,833	11,051

Contingent consideration liability – In August 2014, Teekay Offshore acquired 100% of the outstanding shares of Logitel, a Norway-based company focused on high-end UMS, from CeFront for $4.0 million, which was paid in cash at closing, plus an additional amount of up to $27.6 million, depending on certain performance criteria.
During the second quarter of 2016, Teekay Offshore canceled the UMS construction contracts for its two remaining UMS newbuildings. This is expected to eliminate any future contingent consideration payments. Consequently, the contingent liability was reversed in the second quarter of 2016. The gain associated with this reversal is included in other loss on the Company's consolidated statements of (loss) income for the three and six months ended June 30, 2016.

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Changes in the estimated fair value of Teekay Offshore's contingent consideration liability relating to the acquisition of Logitel, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), during the three and six months ended June 30, 2016 and 2015 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Balance at beginning of period	(15,221)	(21,562)	(14,830)	(21,448)
Adjustment to Liability	—	2,569	—	2,569
Settlement of liability	—	3,540	—	3,540
Gain included in Other income - net (note 13)	15,221	161	14,830	47
Balance at end of period	—	(15,292)	—	(15,292)

b. Financing Receivables

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

Class of Financing Receivable	Credit Quality Indicator	Grade	June 30, 2016	December 31, 2015
			$	$
Direct financing leases	Payment activity	Performing	672,748	684,129
Other loan receivables				
Loans to equity-accounted investees and joint venture partners	Other internal metrics	Performing	209,011	191,517
Long-term receivable included in other assets	Payment activity	Performing	20,213	37,032
			901,972	912,678

12. Restructuring (Charges) Reversals

During the three and six months ended June 30, 2016, the Company recorded restructuring charges of $5.8 million and $19.8 million, respectively. The restructuring charges relate to the closure of two offices and seafarers' severance amounts related to the tug business in Western Australia, reorganization of the Company's FPSO business to create better alignment with the Company's offshore operations, and reductions to charges previously accrued. The charges related to the seafarers' severance are expected to be partly recovered from the customer and is included in revenues on the consolidated statements of (loss) income.

During the three and six months ended June 30, 2015, the Company recorded restructuring reversals (charges) of $0.7 million and $(8.4) million, respectively. The restructuring charges relate to the termination of the employment of certain seafarers upon the expiration of a time-charter out contract, the reorganization of the Company's marine operations and corporate services, and reductions to the charges previously accrued as certain seafarers were not terminated as initially planned. The actual restructuring charges relating to the seafarers were fully reimbursed to the Company by the charterer and the net reimbursement is included in revenues.

At June 30, 2016 and December 31, 2015, $7.4 million and $3.2 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

13. Other Loss

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Write-off of contingent consideration (note 10c)	36,333	—	36,333	—
Accrual of contingent liability (note 10c)	(57,950)	—	(57,950)	—
Miscellaneous income (loss)	181	(389)	331	(14)
Other loss	(21,436)	(389)	(21,286)	(14)

14. Accumulated Other Comprehensive Loss

As at June 30, 2016 and December 31, 2015, the Company's accumulated other comprehensive loss consisted of the following components:

	June 30, 2016 $	December 31, 2015 $
Unrealized loss on qualifying cash flow hedging instruments	(10,799)	(419)
Pension adjustments, net of tax recoveries	(15,418)	(15,850)
Unrealized loss on marketable securities	(454)	(463)
Foreign exchange gain on currency translation	1,928	1,841
	(24,743)	(14,891)

15. Derivative Instruments and Hedging Activities

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

Foreign Exchange Risk

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

As at June 30, 2016, the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency	Average Forward Rate (1)	Fair Value / Carrying Amount Of Asset (Liability) $	Expected Maturity 2016 $	2017 $
Euro	4,500	0.92	124	4,886	—
Norwegian Kroner	762,500	8.02	(3,869)	47,151	47,947
Singapore Dollar	19,637	1.35	(17)	14,592	—
			(3,762)	66,629	47,947

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

The Company enters into cross currency swaps, and pursuant to these swaps the Company receives the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal at maturity of the Company's NOK-denominated bonds due in 2017 through 2020. In addition, the cross currency swaps economically hedge the interest rate exposure on the NOK bonds due in 2017 through 2020. The Company has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK-denominated bonds due in 2017 through 2020. As at June 30, 2016, the Company was committed to the following cross currency swaps:

Notional Amount NOK	Notional Amount USD	Floating Rate Receivable Reference Rate	Floating Rate Receivable Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Asset / (Liability) $	Remaining (Term (years)
700,000	125,000	NIBOR	5.25 %	6.88 %	(44,079)	0.8

900,000	150,000	NIBOR	4.35 %	6.43 %	(48,959)	2.2
1,000,000	134,000	NIBOR	3.70 %	5.92 %	(20,923)	3.9
600,000 (1)(2)	101,351	NIBOR	5.75 %	8.84 %	(34,817)	2.4
800,000 (1)(3)	143,536	NIBOR	5.75 %	7.58 %	(55,132)	2.5
1,000,000	162,200	NIBOR	4.25 %	7.45 %	(54,658)	2.6
					(258,568)	

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(1) Notional amount reduces equally with NOK bond repayments (see note 8).
(2) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 7.2 million for $1.2 million (see note 8).
(3) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 19.2 million for $3.4 million (see note 8).

Interest Rate Risk

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

As at June 30, 2016, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt and EURIBOR-based debt, whereby certain of the Company's floating-rate debt were swapped with fixed-rate obligations:

	Interest Rate Index	Principal Amount	Fair Value / Carrying Amount of Asset / (Liability) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) (1)
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps (2)	LIBOR	3,219,730	(411,210)	4.9	3.3
U.S. Dollar-denominated interest rate swaps (3)	LIBOR	762,957	(47,498)	4.9	2.6
U.S. Dollar-denominated interest rate swaption (4)	LIBOR	155,000	(8,404)	0.8	2.2
U.S. Dollar-denominated interest rate swaption (4)	LIBOR	155,000	113	0.8	3.3
U.S. Dollar-denominated interest rate swaption (5)	LIBOR	160,000	(7,168)	1.6	2.0
U.S. Dollar-denominated interest rate swaption (5)	LIBOR	160,000	742	1.6	3.1
U.S. Dollar-denominated interest rate swaption (6)	LIBOR	160,000	(6,091)	2.0	1.8
U.S. Dollar-denominated interest rate swaption (6)	LIBOR	160,000	1,268	2.0	2.9
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps (7) (8)	EURIBOR	239,792	(41,247)	4.5	3.1
			(519,495)		

(1) Excludes the margins the Company pays on its variable-rate debt, which, as of June 30, 2016, ranged from 0.3% to 4.00%.
(2) Includes a swap in which the 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.
(3) Inception dates range from July 2016 to April 2018. Interest rate swaps with an aggregate principal amount of $320 million are being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2017 to 2024. These interest rate swaps are subject to mandatory early termination in 2017 and 2018 whereby the swaps will be settled based on their fair value at that time.
(4) During June 2015, as part of its hedging program, Teekay LNG entered into interest rate swaption agreements whereby it has a one-time option in April 2017 to enter into an interest rate swap at a fixed rate of 3.34% with a third party, and the third party has a one-time option in April 2017 to require Teekay LNG to enter into an interest swap at a fixed rate of 2.15%. If Teekay LNG or the third party exercises its option, there will be a cash settlement in April 2017 for the fair value of the interest rate swap, in lieu of taking delivery of the actual interest rate swap.

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

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

(7) Principal amount reduces monthly to 70.1 million Euros ($77.9 million) by the maturity dates of the swap agreements.

(8) Principal amount is the U.S. Dollar equivalent of 215.9 million Euros.

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Stock Purchase Warrants

In January 2014, Teekay and Teekay Tankers formed TIL. Teekay and Teekay Tankers purchased an aggregate of 5.0 million shares of TIL's common stock, representing an initial 20% interest in TIL, as part of a $250 million private placement by TIL, which represents a total investment by Teekay and Teekay Tankers of $50.0 million. In addition, Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase an aggregate of up to 1.5 million shares of common stock of TIL at a fixed price of $10 per share. Alternatively, if the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, Teekay and Teekay Tankers may also exercise their stock purchase warrants at 61.67 NOK per share. The estimated fair value of the warrants on issuance was $6.8 million and was included in other income in the consolidated statements of (loss) income. The stock purchase warrants vest in four equally sized tranches and as at June 30, 2016, two tranches have vested. If the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, each tranche will vest and become exercisable when and if the fair market value of a share of TIL's common stock equals or exceeds 77.08 NOK, 92.50 NOK, 107.91 NOK and 123.33 NOK, respectively, for such tranche for any ten consecutive trading days. The stock purchase warrants expire on January 23, 2019. The fair value of the stock purchase warrants at June 30, 2016 was $1.8 million. The Company reports the unrealized gains from the stock purchase warrants in realized and unrealized losses on non-designated derivatives in the consolidated statements of (loss) income.

Time-charter Swap

Effective June 1, 2016, Teekay Tankers entered into a time-charter swap agreement for 55% of two Aframax-equivalent vessels. Under such agreement, Teekay Tankers will receive $27,776 per day, net of a 1.25% brokerage commission, and pay 55% of the net revenue distribution of two Aframax-equivalent vessels employed in Teekay Tankers' Aframax revenue sharing pooling arrangement, less $500 per day, for a period of 11 months plus an additional two months at the counterparty's option. The purpose of the agreement is to reduce Teekay Tankers' exposure to spot tanker market rate variability for certain of its vessels that are employed in the Aframax revenue sharing pooling arrangement. Teekay Tankers has not designated, for accounting purposes, the time-charter swap as a cash flow hedge.

Tabular Disclosure

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

	Prepaid Expenses and Other	Other Non-Current Assets	Accrued Liabilities	Current Portion of Derivative Liabilities	Derivative Liabilities
	$	$	$	$	$
As at June 30, 2016					
Derivatives designated as a cash flow hedge:					
Interest rate swap agreements	—	—	(184)	(760)	(14,436)
Derivatives not designated as a cash flow hedge:	—	—	—	—	—
Foreign currency contracts	432	347	—	(4,513)	(28)
Interest rate swap agreements	113	2,009	(14,891)	(79,293)	(412,053)
Cross currency swap agreements	—	—	(3,048)	(69,600)	(185,920)

Stock purchase warrants	—	1,833	—	—	—
Time-charter swap agreement	1,345	—	—	—	—
	1,890	4,189	(18,123)	(154,166)	(612,437)
As at December 31, 2015					
Derivatives designated as a cash flow hedge:					
Interest rate swap agreements	—	—	—	(338)	(777)
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	80	—	—	(16,372)	(2,534)
Interest rate swap agreements	—	7,516	(18,348)	(198,196)	(154,673)
Cross currency swap agreements	—	—	(3,377)	(52,633)	(256,100)
Stock purchase warrants	—	10,328	—	—	—
	80	17,844	(21,725)	(267,539)	(414,084)

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As at June 30, 2016, the Company had multiple interest rate swaps, cross currency swaps and foreign currency forward contracts with the same counterparty that are subject to the same master agreements. Each of these master agreements provides for the net settlement of all derivatives subject to that master agreement through a single payment in the event of default or termination of any one derivative. The fair value of these derivatives is presented on a gross basis in the Company's consolidated balance sheets. As at June 30, 2016, these derivatives had an aggregate fair value asset amount of nil and an aggregate fair value liability amount of $625.8 million. As at June 30, 2016, the Company had $70.1 million on deposit with the relevant counterparties as security for swap liabilities under certain master agreements. The deposit is presented in restricted cash on the consolidated balance sheets.

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

Three Months Ended June 30, 2016			
Effective Portion Recognized in AOCI(1)	Effective Portion Reclassified from AOCI(2)	Ineffective Portion(3)	
$	$	$	
(5,458)	—	1,291	Interest expense
(5,458)	—	1,291	

Six Months Ended June 30, 2016			
Effective Portion Recognized in AOCI(1)	Effective Portion Reclassified from AOCI(2)	Ineffective Portion(3)	
(14,025)	—	(56)	Interest expense
(14,025)	—	(56)	

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

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

	Three Months Ended June 30,	Six Months Ended June 30,

	2016 $	2015 $	2016 $	2015 $
Realized (losses) gains relating to:				
Interest rate swap agreements	(22,409)	(27,205)	(45,589)	(55,094)
Interest rate swap agreement terminations	—	—	(8,140)	—
Foreign currency forward contracts	(2,336)	(4,232)	(7,332)	(9,660)
Time charter swap agreement	126	—	126	—
	(24,619)	(31,437)	(60,935)	(64,754)
Unrealized (losses) gains relating to:				
Interest rate swap agreements	(62,817)	83,986	(143,871)	40,326
Foreign currency forward contracts	1,093	9,386	15,064	3,057
Stock purchase warrants	(4,274)	1,817	(8,496)	1,737
Time charter swap agreement	1,345	—	1,345	—
	(64,653)	95,189	(135,958)	45,120
Total realized and unrealized (losses) gains on derivative instruments	(89,272)	63,752	(196,893)	(19,634)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Realized losses on termination of cross currency swaps	—	—	(32,628)	—
Realized losses	(5,000)	(3,771)	(9,939)	(7,934)
Unrealized (losses) gains	(20,993)	13,501	53,213	(42,152)
Total realized and unrealized (losses) gains on cross currency swaps	(25,993)	9,730	10,646	(50,086)

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.

16. Income Tax (Expense) Recovery

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Current	(4,082)	(2,630)	(8,712)	(2,828)
Deferred	2,659	1,878	6,213	3,071
Income tax (expense) recovery	(1,423)	(752)	(2,499)	243

The following reflects the changes in the Company’s unrecognized tax benefits, recorded in other long-term liabilities, from December 31, 2015 to June 30, 2016:

	$
Balance of unrecognized tax benefits as at January 1, 2016	18,390
Decrease for positions taken in prior years	(2,988)
Increase for positions related to the current period	4,874
Decrease related to statute of limitations	(764)
Balance of unrecognized tax benefits as at June 30, 2016	19,512

The majority of the net increase for positions for the six months ended June 30, 2016 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.

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17. Net (Loss) Income Per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Net (loss) income attributable to shareholders of Teekay Corporation	(77,809)	65,912	(126,592)	56,148
The Company's portion of the Inducement Premium and Exchange Contribution charged to retained earnings by Teekay Offshore (note 10d)	(4,993)	—	(4,993)	—
Net (loss) income attributable to shareholders of Teekay Corporation - basic and diluted	(82,802)	65,912	(131,585)	56,148
Weighted average number of common shares	72,945,635	72,697,121	72,844,031	72,623,503
Dilutive effect of stock-based compensation	—	780,559	—	755,725
Common stock and common stock equivalents	72,945,635	73,477,680	72,844,031	73,379,228
(Loss) income per common share:				
– Basic	(1.14)	0.91	(1.81)	0.77
– Diluted	(1.14)	0.90	(1.81)	0.77

Stock-based awards, which have an anti-dilutive effect on the calculation of diluted loss per common share, are excluded from this calculation. For the three and six months ended June 30, 2016, options to acquire 3.9 million shares of Common Stock had an anti-dilutive effect on the calculation of diluted income per common share (three and six months ended June 30, 2015 - 0.4 million). In periods where a loss attributable to shareholders of Teekay has been incurred all stock-based awards are anti-dilutive.

18. Subsequent Event

On July 19, 2016, Teekay LNG took delivery of its second MEGI LNG carrier newbuilding, the Oak Spirit, which commenced its five-year charter contract with a subsidiary of Cheniere Energy, Inc. on August 1, 2016. Teekay LNG partially financed this MEGI LNG carrier newbuilding through a sale-leaseback transaction of approximately $176 million.

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TEEKAY CORPORATION AND SUBSIDIARIES
JUNE 30, 2016
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 unaudited 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, 2015.

Overview

Teekay Corporation (or Teekay) operates in the marine midstream space. We have general and limited partnership interests in two publicly-listed partnerships, Teekay Offshore Partners L.P. (or Teekay Offshore) and Teekay LNG Partners L.P. (or Teekay LNG). In addition, we have a controlling ownership interest in publicly-listed Teekay Tankers Ltd. (or Teekay Tankers) and we have a fleet of directly-owned vessels. Teekay provides a comprehensive set of marine services to the world's leading oil and gas companies.

Structure

To understand our financial condition and results of operations, a general understanding of our organizational structure is required. Our organizational structure can be divided into (a) our controlling interests in our publicly-listed subsidiaries Teekay Offshore, Teekay LNG and Teekay Tankers (or the Daughter Companies), and (b) Teekay and its remaining subsidiaries, which is referred to in this Report as Teekay Parent. For further information on our organizational structure, please read "Item 5. Operating and Financial Review and Prospects – Management's Discussion and Analysis of Financial Condition and Results of Operations – Structure", in our Annual Report on Form 20-F for the year ended December 31, 2015.

Global crude oil prices have significantly declined since mid-2014. This decline, combined with other factors beyond our control, has adversely affected energy and master limited partnership capital markets and available sources of financing. We believe there is currently a dislocation in the capital markets relative to the stability of our businesses. Based on the upcoming equity capital requirements for our committed growth projects, coupled with the uncertainty regarding how long it will take for the energy and capital markets to normalize, we believe that it is in the best interests of our shareholders to conserve more of our internally generated cash flows for future growth projects and to reduce debt levels. Consequently, effective for the quarterly distribution for the fourth quarter of 2015, Teekay Parent temporarily reduced its quarterly cash dividend per share to $0.055 from $0.55, Teekay Offshore temporarily reduced its quarterly cash distribution per common unit to $0.11 from $0.56 and Teekay LNG temporarily reduced its quarterly cash distribution per common unit to $0.14 from $0.70. These reduced levels of dividends and distributions were maintained in the first and second quarters of 2016. Despite significant weakness in the global energy and capital markets, our cash flows from vessels operations remain largely stable and growing, supported by a large and well-diversified portfolio of fee-based contracts with high quality counterparties. In addition to using more of our internally generated cash flows for future growth projects and to reduce our debt levels, we may seek alternative sources of financing such as sale and leaseback transactions, new bank borrowings, the issuance of new debt and equity securities.

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

RECENT DEVELOPMENTS AND RESULTS OF OPERATIONS

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

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(in thousands of U.S. dollars)	Revenues Three Months Ended June 30,		Six Months Ended June 30,		Income (loss) from Vessel Operations Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
Teekay Offshore	284,464	311,234	591,172	576,217	24,271	96,412	112,570	165,462
Teekay LNG	99,241	98,608	195,012	195,934	47,554	43,856	64,537	88,953
Teekay Tankers(1)	139,621	107,594	304,571	211,472	30,751	43,668	84,589	83,972
Teekay Parent	83,104	101,960	180,830	206,126	(28,796)	(10,336)	(55,578)	(27,335)
Elimination of intercompany(2)(3)	(18,811)	(26,599)	(42,858)	(51,090)	2,198	1,917	5,185	1,890
Teekay Corporation Consolidated	587,619	592,797	1,228,727	1,138,659	75,978	175,517	211,303	312,942

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

(2) During the three and six months ended June 30, 2016, Teekay chartered in three floating storage and off-take (or FSO) units, two shuttle tankers and one Aframax tankers from Teekay Offshore, two liquefied natural gas (or LNG) carriers from Teekay LNG, and one Aframax tanker from Teekay Tankers. During the three and six months ended June 30, 2015, Teekay chartered in three FSO units, two shuttle tankers and four Aframax tankers from Teekay Offshore, two LNG carriers from Teekay LNG and two Aframax tankers from Teekay Tankers. Internal charter hire between Teekay Parent and the Daughter Companies are eliminated upon consolidation.

(3) During August 2014, Teekay sold to Teekay Tankers a 50% interest in Teekay Tankers Operations Ltd (or TTOL), which owns our conventional tanker commercial management and technical management operations, including direct ownership in three commercially managed tanker pools of the Teekay group. Teekay Tankers and Teekay Parent each account for their 50% interests in TTOL as equity-accounted investments and, as such, TTOL's results are reflected in equity income of Teekay Tankers and Teekay Parent. Upon consolidation of Teekay Tankers into Teekay, the results of TTOL are accounted for on a consolidated basis by Teekay. The impact on income from vessel operations of consolidating TTOL for the three and six months ended June 30, 2016, was an increase of $2.2 million and $5.2 million, respectively. The impact on income from vessel operations of consolidating TTOL for the three and six months ended June 30, 2015, was an increase of $1.9 million.

There are a number of factors that should be considered when evaluating our historical financial performance and assessing our future prospects and we use a variety of financial and operational terms and concepts when analyzing our results of operations. 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, 2015.

In accordance with United States generally accepted accounting principles (or GAAP), we report gross revenues in our consolidated statements of (loss) income and include voyage expenses among our operating expenses. However, shipowners often 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 floating production, storage and offloading (or 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 (i.e. revenues less voyage expenses), a non-GAAP measure, and TCE rates where applicable.

Teekay Offshore

Recent Developments in Teekay Offshore

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

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

In June 2016, as part of Teekay Offshore's financing initiatives, its subsidiary canceled the UMS construction contracts for its two UMS newbuildings. As a result, Teekay Offshore incurred a $43.7 million write-down related to these two UMS newbuildings for the three and six months ended June 30, 2016, which is included in Asset Impairments in Teekay's consolidated statements of (loss) income. In addition, Teekay Offshore accrued for potential damages resulting from the cancellations, and reversed the contingent liabilities previously recorded that were subject to the delivery of the UMS newbuildings. This net loss provision of $23.4 million for the three and six months ended June 30, 2016 is reported in Other Loss in Teekay's consolidated statements of (loss) income. The newbuilding contracts are held in Teekay Offshore's separate subsidiaries and obligations of these subsidiaries are non-recourse to Teekay Offshore.

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Operating Results – Teekay Offshore

The following table compares Teekay Offshore's operating results and number of calendar-ship-days for its vessels for the three and six months ended June 30, 2016 and 2015, and compares its net revenues (which is a non-GAAP financial measure) for the three and six months ended June 30, 2016 and 2015, to revenues, the most directly comparable GAAP financial measure, for the same periods.

(in thousands of U.S. Dollars, except calendar-ship-days)	Offshore Logistics		Offshore Production		Conventional Tankers		Teekay Offshore Total	
	Three Months Ended June 30,							
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues	155,095	161,267	124,715	141,722	4,654	8,245	284,464	311,234
Voyage expenses	(16,978)	(20,069)	—	—	(610)	(647)	(17,588)	(20,716)
Net revenues	138,117	141,198	124,715	141,722	4,044	7,598	266,876	290,518
Vessel operating expenses	(49,196)	(42,864)	(41,365)	(50,445)	(166)	(1,514)	(90,727)	(94,823)
Time-charter hire expense	(14,764)	(10,762)	—	—	(4,065)	—	(18,829)	(10,762)
Depreciation and amortization	(36,823)	(32,345)	(37,234)	(37,783)	—	(1,675)	(74,057)	(71,803)
General and administrative (1)	(5,604)	(8,684)	(8,217)	(6,892)	—	(507)	(13,821)	(16,083)
Asset impairments	(43,650)	(500)	—	—	—	—	(43,650)	(500)
Restructuring charges	(34)	(135)	(1,487)	—	—	—	(1,521)	(135)
(Loss) Income from vessel operations	(11,954)	45,908	36,412	46,602	(187)	3,902	24,271	96,412
Equity income	—	—	3,626	9,720	—	—	3,626	9,720
Calendar-Ship-Days (2)								
Shuttle Tankers	2,953	3,057	—	—	—	—	2,953	3,057
FSO Units	637	567	—	—	—	—	637	567
FPSO Units	—	—	546	546	—	—	546	546
Towage Units	546	402	—	—	—	—	546	402
UMS Unit	91	91	—	—	—	—	91	91
Conventional Tankers	—	—	—	—	182	364	182	364

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(in thousands of U.S. Dollars, except calendar-ship-days)	Offshore Logistics		Offshore Production		Conventional Tankers		Teekay Offshore Total	
	Six Months Ended June 30,							
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues	320,205	319,913	257,499	239,997	13,468	16,307	591,172	576,217
Voyage expenses	(34,645)	(42,018)	—	—	(1,287)	(1,215)	(35,932)	(43,233)
Net revenues	285,560	277,895	257,499	239,997	12,181	15,092	555,240	532,984
Vessel operating expenses	(96,116)	(84,291)	(88,279)	(87,211)	(1,504)	(2,888)	(185,899)	(174,390)
Time-charter hire expense	(29,575)	(17,745)	—	—	(4,576)	—	(34,151)	(17,745)
Depreciation and amortization	(74,161)	(64,180)	(74,818)	(62,268)	—	(3,349)	(148,979)	(129,797)
General and administrative [1]	(11,227)	(18,510)	(16,891)	(11,833)	(172)	(759)	(28,290)	(31,102)
Asset impairments	(43,650)	(15,996)	—	—	—	—	(43,650)	(15,996)
Net gain on sale of vessels and equipment	(245)	1,643	—	—	65	—	(180)	1,643
Restructuring charges	(34)	(135)	(1,487)	—	—	—	(1,521)	(135)
Income from vessel operations	30,552	78,681	76,024	78,685	5,994	8,096	112,570	165,462
Equity income	—	—	8,909	13,811	—	—	8,909	13,811
Calendar-Ship-Days [2]								
Shuttle Tankers	5,931	6,108	—	—	—	—	5,931	6,108
FSO Units	1,274	1,107	—	—	—	—	1,274	1,107
FPSO Units	—	—	1,092	1,018	—	—	1,092	1,018
Towage Units	1,092	509	—	—	—	—	1,092	509
UMS unit	182	134	—	—	—	—	182	134
Conventional Tankers	—	—	—	—	364	724	364	724

(1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to offshore logistics, offshore production and conventional tankers based on estimated use of corporate resources.
(2) Calendar-ship-days presented relate to owned and in-chartered consolidated vessels.

Teekay Offshore – Offshore Logistics

Offshore Logistics consists of Teekay Offshore's shuttle tankers, FSO units, its HiLoad DP unit, towage vessels and one UMS. As at June 30, 2016, the shuttle tanker fleet consisted of 31 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters, three shuttle tanker newbuildings, and the HiLoad DP unit which is currently in lay-up. Of these 35 shuttle tankers, six were owned through 50%-owned subsidiaries, one through a 67%-owned subsidiary and three were chartered-in. The remaining vessels are owned 100% by Teekay Offshore. In January 2016, Teekay Offshore sold a 1992-built shuttle tanker, the Navion Torinita, which was in lay-up and was classified as held for sale on Teekay's consolidated balance sheet as of December 31, 2015. In July 2016, Teekay Offshore agreed to in-charter a shuttle tanker, the Grena Knutsen, on a three-year charter contract for Teekay Offshore's North Sea fleet commencing in September 2016. All of these shuttle tankers, with the exception of the HiLoad DP unit, provide transportation services to energy companies in the North Sea, Brazil and the East Coast of Canada. Teekay Offshore's shuttle tankers occasionally service the conventional spot tanker market. Teekay Offshore commenced the FSO conversion of the Randgrid shuttle tanker during the second quarter of 2016. During the first quarter of 2015, Teekay Offshore sold the Navion Svenita shuttle tanker. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Euro and Brazilian Real may result in significant decreases or increases, respectively, in vessel operating expenses.

As at June 30, 2016, Teekay Offshore’s FSO fleet consisted of six units that operate under fixed-rate time charters or fixed-rate bareboat charters, and in which Teekay Offshore’s ownership interests range from 89% to 100%. The Randgrid shuttle tanker is currently undergoing conversion into an FSO unit, for which Teekay Offshore's ownership interest increased from 67% to 100% during the third quarter of 2015. FSO units provide an on-site storage solution to oil field installations that have no oil storage facilities or that require supplemental storage. Teekay Offshore’s revenues and vessel operating expenses for the FSO segment are affected by fluctuations in currency exchange rates, as a significant component of revenues are earned and vessel operating expenses are incurred in Norwegian Kroner and Australian Dollars for certain vessels. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner and Australian Dollar may result in significant decreases or increases, respectively, in revenues and vessel operating expenses.

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As at June 30, 2016, Teekay Offshore's towage vessel fleet consisted of six long-distance towing and offshore installation vessels and four ultra-long distance towing and offshore installation vessel newbuildings, which are scheduled to deliver during the remainder of 2016 and early-2017. Teekay Offshore owns a 100% interest in all of the vessels in its towage fleet. Long-distance towing and offshore installation vessels are used for the towage, station-keeping, installation and decommissioning of large floating objects such as exploration, production and storage units, including FPSO units, floating liquefied natural gas (or FLNG) units and floating drill rigs.

As at June 30, 2016, Teekay Offshore's UMS fleet consisted of one operational unit, the Arendal Spirit, in which Teekay Offshore owns a 100% interest. During the second quarter of 2016, as part of Teekay Offshore's financing initiatives, its subsidiary canceled the UMS construction contracts for its two UMS newbuildings resulting in a write down of the UMS newbuildings to $nil. The UMS fleet is used primarily for offshore accommodation, storage and support for maintenance and modification projects on existing offshore installations, or during the installation and decommissioning of large floating exploration, production and storage units, including FPSO units, FLNG units and floating drill rigs. The UMS fleet is available for world-wide operations, excluding operations within the Norwegian Continental Shelf, and includes DP3 keeping systems that are capable of operating in deep water and harsh weather. The Arendal Spirit delivered to Teekay Offshore on February 16, 2015 and began its three-year charter contract on June 7, 2015. In mid-April 2016, during the process of lifting off the gangway connecting the Arendal Spirit to an FPSO unit, the gangway of the Arendal Spirit suffered damage. During the gangway replacement, the Arendal Spirit was declared off-hire. The gangway was replaced during the second quarter of 2016 and the Arendal Spirit was declared on-hire in early-July 2016. Teekay Offshore is currently negotiating a potential three-year contract extension with the charterer of the Arendal Spirit in exchange for a reduction in the current charter rate.

The average size of Teekay Offshore's owned shuttle tanker fleet decreased for the three and six months ended June 30, 2016 compared to the same periods last year, primarily due to the sales of the Navion Svenita and the Navion Torinita in March 2015 and January 2016, respectively, and the commencement of the FSO conversion of the Randgrid in June 2015. The average size of Teekay Offshore's chartered-in shuttle tanker fleet increased for the three and six months ended June 30, 2016 compared to the same periods last year, primarily due to the in-chartering of two shuttle tankers, the Jasmine Knutsen and the Heather Knutsen, for the east coast of Canada contract, which commenced in June 2015, and increased spot in-chartering of shuttle tankers, partially offset by redelivery to its owner of the Grena Knutsen in June 2015. The Grena Knutsen will be rechartered-in for three years commencing September 2016.

The average number of Teekay Offshore's towing and offshore installation vessels increased for the three and six months ended June 30, 2016 compared to the same periods last year, due to the delivery of three vessels during the first quarter of 2015, two vessels during the second quarter of 2015 and one vessel during the third quarter of 2015.

Income from vessel operations for Teekay Offshore's Offshore Logistics business decreased to a loss of $12.0 million and income of $30.6 million, respectively, for the three and six months ended June 30, 2016 compared to income of $45.9 million and income of $78.7 million, respectively, for the same periods last year, primarily as a result of:

- decreases of $52.8 million and $49.1 million, respectively, for the three and six months ended June 30, 2016, in the UMS fleet primarily due to the write-downs relating to the cancellation of the two UMS newbuilding contracts, lower revenue from the Arendal Spirit being off-hire from mid-April 2016 until early-July 2016 due to damage suffered to the gangway of the unit, and higher repairs and maintenance costs also relating to the gangway incident;
- decreases of $9.2 million and $22.6 million, respectively, for the three and six months ended June 30, 2016, mainly due to the expiration during the second quarter of 2015 of a long-term contract at the Heidrun field serviced by the contracts of affreightment fleet;
- decreases of $4.5 million and $8.7 million, respectively, for the three and six months ended June 30, 2016, due to higher depreciation expense for Teekay Offshore's shuttle tankers due to the change in the estimated useful life of the shuttle component for all shuttle tankers from 25 to 20 years as well as the accelerated amortization of the tanker component for eight older shuttle tankers during the first quarter of 2016, partially offset by lower depreciation expense due to the write-down of the carrying values of seven shuttle tankers during 2015, and the cost of the Navion Europa and the dry-dock costs of the Stena Alexita being fully amortized in the second quarter of 2015 and the first quarter of 2016, respectively;

- decreases of $3.5 million and $5.5 million, respectively, for the three and six months ended June 30, 2016, due to lower average rates and fewer opportunities to trade excess shuttle tanker capacity in the conventional tanker spot market;
- decreases of $2.9 million and $5.3 million, respectively, for the three and six months ended June 30, 2016, in the towage fleet mainly due to a decrease in rates and utilization of the towing and offshore installation vessels during the first and second quarters of 2016, and an increase in repairs and maintenance expense due to engine overhauls on the ALP Winger and ALP Centre during the first quarter of 2016;
- a decrease of $2.3 million for the six months ended June 30, 2016, due to the sale of the Navion Svenita shuttle tanker in March 2015;
- a decrease of $1.8 million for the three and six months ended June 30, 2016, due to the redelivery of the Navion Anglia to Teekay Offshore in June 2016 as it completed its time-charter-out agreement; and
- decreases of $1.5 million and $7.6 million, respectively, for the three and six months ended June 30, 2016, due to the redelivery of one vessel to Teekay Offshore in April 2015 as it completed its time-charter-out agreement;

partially offset by

- an increase of $13.9 million for the six months ended June 30, 2016 due to a write-down of shuttle tankers of $15.5 million in the first quarter of 2015, partially offset by a gain of $1.6 million on the sale of a shuttle tanker in the first quarter of 2015;
- increases of $5.0 million and $10.5 million, respectively, for the three and six months ended June 30, 2016, due to increases in rates as provided in certain contracts in our time-chartered-out fleet and an increase in revenues in our contract of affreightment fleet due to higher average rates and higher fleet utilization;

- increases of $4.2 million and $8.2 million, respectively, for the three and six months ended June 30, 2016, due to the commencement of the East Coast of Canada shuttle tanker contract in June 2015;
- increases of $1.8 million and $5.4 million, respectively, for the three and six months ended June 30, 2016, due to a reduction in operating expenses and amortization expense due to the commencement of the FSO conversion of the Randgrid in June 2015;
- increases of $1.4 million and $3.2 million, respectively, for the three and six months ended June 30, 2016, in the FSO fleet due to lower crew costs on the Navion Saga and the Dampier Spirit mainly due to the strengthening of the U.S. Dollar against the Norwegian Kroner and Australian Dollar compared to the same periods last year, lower ship management fees, and lower depreciation expense primarily due to dry-dock costs for the Navion Saga being fully depreciated during the fourth quarter of 2015;
- increases of $1.0 million and $2.3 million, respectively, for the three and six months ended June 30, 2016, from decreases in time-charter hire expenses for Teekay Offshore's shuttle tankers due to the redelivery by Teekay Offshore to its owner of the in-chartered Grena Knutsen in June 2015, partially offset by increased spot in-chartering of shuttle tankers; and
- increases of $0.4 million and $3.3 million, respectively, for the three and six months ended June 30, 2016, from decreases in vessel operating expenses for Teekay Offshore’s shuttle tankers due to the timing of repairs and maintenance expenses and fleet overhead compared to the same periods last year, and the strengthening of the U.S. Dollar against the Norwegian Kroner, Euro and Brazilian Real, partially offset higher crew costs compared to the same periods last year due to a change in crew composition.

Teekay Offshore – Offshore Production

Offshore Production consists of Teekay Offshore’s FPSO units. As at June 30, 2016, the FPSO fleet consisted of the Petrojarl Knarr, the Petrojarl Varg, the Cidade de Rio das Ostras (or Rio das Ostras), the Piranema Spirit, the Voyageur Spirit and the Petrojarl I FPSO units, all of which Teekay Offshore owns 100%, and the Itajai and the Libra FPSO units, of which Teekay Offshore owns 50% each. One equity accounted FPSO unit, the Libra FPSO unit owned through Teekay Offshore's 50/50 joint venture with Odebrecht Oil and Gas S.A., is currently undergoing conversion into an FPSO unit for the Libra field located in the Santos Basin offshore Brazil and is scheduled to commence operations in early-2017. The Petrojarl I FPSO unit is currently undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard in the Netherlands and is scheduled to commence operations under a five-year fixed-rate charter contract with Queiroz Galvão Exploração e Produção SA (or QGEP) in the first half of 2017. Teekay Offshore acquired the Petrojarl Knarr FPSO unit from Teekay in July 2015.

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

Teekay Offshore uses the FPSO units to provide production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate FPSO contracts, some of which also include certain incentive compensation or penalties based on the level of oil production and other operational measures. Historically, the utilization of FPSO units and other vessels in the North Sea, where the Voyageur Spirit and Petrojarl Knarr operate, is higher in the winter months as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to Teekay Offshore’s vessels and the offshore oil platforms, which generally reduces oil production. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Brazilian Real, and British Pound may result in significant decreases or increases, respectively, in Teekay Offshore’s revenues and vessel operating expenses.

The average number of Teekay Offshore’s FPSO units increased for the three and six months ended June 30, 2016 compared to the same period last year, due to the inclusion of the results of the Petrojarl Knarr from March 9, 2015, when it commenced operations.

Income from vessel operations for Teekay Offshore’s Offshore Production business decreased to $36.4 million and $76.0 million, respectively, for the three and six months ended June 30, 2016, compared to $46.6 million and $78.7 million, respectively, for the same periods last year, primarily as a result of:

- decreases of $8.3 million and $14.5 million, respectively, for the three and six months ended June 30, 2016, for the Petrojarl Varg FPSO unit, mainly from no longer receiving the capital portion of the charter hire since February 1, 2016, due to the termination of the charter contract by Repsol effective at the end of July 2016;
- decreases of $5.1 million and $5.7 million, respectively, for the three and six months ended June 30, 2016, for the Piranema Spirit FPSO unit mainly due to a provision relating to a possible return of 2% of the charter hire to Petrobras, the charterer, in lieu of an agency fee owing for the period from November 2011 up to June 30, 2016; and
- decreases of $1.3 million and $5.1 million, respectively, for the three and six months ended June 30, 2016, from increases in general and administrative expenses mainly due to the commencement of operations by the Petrojarl Knarr FPSO unit in March 2015;

partially offset by

- increases of $3.3 million and $21.6 million, respectively, for the three and six months ended June 30, 2016, due to the Petrojarl Knarr FPSO unit commencing operations on March 9, 2015; and
- increases of $1.5 million and $2.7 million, respectively, for the three and six months ended June 30, 2016, for the Voyageur Spirit FPSO unit mainly due to a decrease in operating expenses for the unit due to the strengthening of the U.S. Dollar against the British Pound, and lower repairs and maintenance expenses.

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Equity income decreased to $3.6 million and $8.9 million, respectively, for the three and six months ended June 30, 2016, compared to $9.7 million and $13.8 million, respectively, for the same periods last year. The decrease was primarily due to a decrease in unrealized gains on derivative instruments for Teekay Offshore's investment in the Itajai and Libra FPSO units that occurred in 2015, a decrease in revenues for the Itajai FPSO unit for the six months ended June 30, 2016 compared to the same period last year mainly due to lower production, the strengthening of the U.S. Dollar against the Brazilian Real and a lower maintenance bonus received during the first quarter of 2016, and a write-off of equipment in the Itajai FPSO joint venture during the second quarter of 2016.

Teekay Offshore – Conventional Tankers

As at June 30, 2016, Teekay Offshore's conventional tanker fleet consisted of two conventional tankers, which were chartered-in. In March 2016, Teekay Offshore terminated the time-charter contract of the Kilimanjaro Spirit with a subsidiary of Teekay and received an early termination fee of $4.0 million from Teekay. Subsequently, Teekay Offshore sold the Kilimanjaro Spirit and the Fuji Spirit conventional tankers. The Kilimanjaro Spirit was renamed Blue Pride and the Fuji Spirit was renamed Blue Power. As part of the sales, Teekay Offshore is in-chartering these vessels for three years with additional one-year extension options. One vessel is fixed on a two-year time-charter-out contract, that commenced during the second quarter of 2016, and the other vessel is trading in the spot conventional tanker market.

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

Income from vessel operations decreased to a loss of $0.2 million and income of $6.0 million, respectively, for the three and six months ended June 30, 2016, compared to income of $3.9 million and $8.1 million, respectively, for the same periods last year, primarily as a result of:

- decreases of $1.4 million and $2.8 million, respectively, for the three and six months ended June 30, 2016, due to the sale of the SPT Explorer and Navigator Spirit in December 2015; and

- a decrease of $3.2 million for the three months ended June 30, 2016, due to the sale of the Kilimanjaro Spirit and Fuji Spirit in March 2016, and the subsequent in-chartering of the vessels.

Teekay LNG

Recent Developments in Teekay LNG

During February and March 2016, Centrofin Management Inc. (or Centrofin), the charterer for both the Bermuda Spirit and Hamilton Spirit Suezmax tankers, exercised its option under the charter contracts to purchase both the Bermuda Spirit and Hamilton Spirit. As a result of Centrofin's acquisition of the Bermuda Spirit and Hamilton Spirit, Teekay LNG recorded a $27.4 million accounting loss on the sale of these vessels and associated charter contracts in the first quarter of 2016. The Bermuda Spirit was sold on April 15, 2016 and the Hamilton Spirit was sold on May 17, 2016. The total proceeds of approximately $94.3 million from the sales were primarily used to repay existing term loans associated with these vessels.

In February 2016, Teekay LNG took delivery of the first of the M-type, Electronically Controlled Gas Injection (or MEGI) LNG carrier newbuildings on order, which commenced its five-year charter contract with a subsidiary of Cheniere Energy, Inc. on February 29, 2016. As at June 30, 2016, Teekay LNG had 10 wholly-owned LNG carrier newbuildings on order, of which one delivered on July 19, 2016, and commenced its five-year charter contract with a subsidiary of Cherniere Energy Inc. on August 1, 2016, and the remaining nine are scheduled for delivery between early-2017 and early-2019. Teekay LNG has entered into time-charter contracts for all but two of the nine remaining newbuildings. In addition to Teekay LNG's wholly-owned LNG carrier newbuildings, it has a 20% interest in two LNG carrier newbuildings and a 30% interest in another two LNG carrier newbuildings (or the BG Joint Venture) scheduled for delivery between 2017 and 2019 and six LNG carrier newbuildings relating to its 50% owned joint venture with China LNG Shipping (Holdings) Limited (or the Yamal LNG Joint Venture) scheduled for delivery between 2018 and 2020.

In February and June 2016, Exmar LPG BVBA (or the Exmar LPG Joint Venture), of which Teekay LNG has a 50% ownership interest, took delivery of the sixth and seventh of its 12 liquefied petroleum gas (or LPG) carrier newbuildings, on order. The five-year charter contracts with an international energy company based in Norway commenced on February 23, 2016 for one vessel and the other vessel charter contract commenced in late-August 2016.

Two of the six LNG carriers (or MALT LNG Carriers) in Teekay LNG's 52% joint venture with Marubeni Corporation (or the Teekay LNG-Marubeni Joint Venture), the Marib Spirit and Arwa Spirit, are currently under long-term contracts expiring in 2029 with Yemen LNG Ltd. (or YLNG), a consortium led by Total SA. Due to the political situation in Yemen, YLNG decided to temporarily close down operations of its LNG plant in Yemen in 2015. As a result, in December 2015, the Teekay LNG-Marubeni Joint Venture agreed to temporarily defer a portion of the charter payments for the two LNG carriers for the period from January 1, 2016 to December 31, 2016. Once the LNG plant in Yemen resumes operations, it is intended that YLNG will repay the deferred amounts in full, plus interest thereon over a period of time to be agreed upon. However, there is no assurance if or when the LNG plant will resume operations or if YLNG will repay the deferred amounts, and these amounts have not been included in equity income. Teekay LNG's proportionate share of the estimated impact of the charter payment deferral for the remainder of 2016 would be a reduction to equity income of approximately $12 million.

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

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Operating Results – Teekay LNG

The following table compares Teekay LNG's operating results and number of calendar-ship-days for its vessels for the three months ended June 30, 2016 and 2015, and compares its net revenues (which is a non-GAAP financial measure) for the first quarters of 2016 and 2015 to revenues, the most directly comparable GAAP financial measure, for the same periods.

(in thousands of U.S. Dollars, except calendar-ship-days)	Liquefied Gas Carriers		Conventional Tankers		Teekay LNG Total	
	Three Months Ended June 30,					
	2016	2015	2016	2015	2016	2015
Revenues	84,497	77,466	14,744	21,142	99,241	98,608
Voyage expenses	(126)	—	(416)	(373)	(542)	(373)
Net revenues	84,371	77,466	14,328	20,769	98,699	98,235
Vessel operating expenses	(16,734)	(16,127)	(5,678)	(7,975)	(22,412)	(24,102)
Depreciation and amortization	(20,474)	(18,004)	(2,395)	(5,205)	(22,869)	(23,209)
General and administrative (1)	(4,679)	(5,514)	(1,185)	(1,554)	(5,864)	(7,068)
Income from vessel operations	42,484	37,821	5,070	6,035	47,554	43,856
Equity income	29,567	29,002	—	—	29,567	29,002
Calendar-Ship-Days (2)						
Liquefied Gas Carriers	1,820	1,729	—	—	1,820	1,729
Conventional Tankers	—	—	607	728	607	728

(in thousands of U.S. Dollars, except calendar-ship-days)	Liquefied Gas Carriers		Conventional Tankers		Teekay LNG Total	
	Six Months Ended June 30,					
	2016	2015	2016	2015	2016	2015
Revenues	163,082	153,400	31,930	42,534	195,012	195,934
Voyage expenses	(243)	—	(756)	(691)	(999)	(691)
Net revenues	162,839	153,400	31,174	41,843	194,013	195,243
Vessel operating expenses	(31,966)	(30,433)	(12,299)	(15,303)	(44,265)	(45,736)
Depreciation and amortization	(39,159)	(36,310)	(7,321)	(10,468)	(46,480)	(46,778)
General and administrative (1)	(9,041)	(10,839)	(2,251)	(2,937)	(11,292)	(13,776)
Loss on sale of vessels	—	—	(27,439)	—	(27,439)	—
Income (loss) from vessel operations	82,673	75,818	(18,136)	13,135	64,537	88,953
Equity income	39,065	47,060	—	—	39,065	47,060
Calendar-Ship-Days (2)						
Liquefied Gas Carriers	3,592	3,439	—	—	3,592	3,439
Conventional Tankers	—	—	1,335	1,448	1,335	1,448