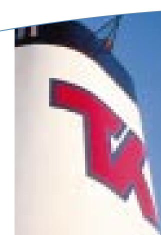
Teekay Shipping Corporation

consistency & flexibility



Value-added transportation solutions

Annual Report 1997

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CORPORATE PROFILE

Teekay Shipping Corporation owns and manages the world's largest and most modern fleet of medium-sized tankers. Founded in 1973 by the late Torben Karlshoej, the Company has established a reputation for excellence as a provider of quality transportation services to the oil industry.

Teekay operates primarily in the Indo-Pacific Basin, and maintains continuous presence in the world tanker market from its chartering offices in London, Singapore, Tokyo, and Vancouver. Most day-to-day activities are coordinated from the Vancouver office, and the Company's headquarters are in Nassau, Bahamas.

Teekay employs 1600 people in its sea-going operations and offices. The Company trades on the New York Stock Exchange under the symbol TK.

Teekay Shipping Corporation's Annual General Meeting will take place on September 3, 1997 at 10:00 a.m. at the Royal Automobile Club, 89 Pall Mall, London, England.

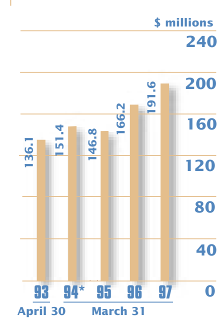
Designed and produced by Parallel Strategies (Vancouver) Inc.

Financial Highlights

(in thousands of U.S. dollars, except per share and per day data and ratios)

	Year ended March 31, 1997	Year ended March 31, 1996
Income Statement Data		
Net voyage revenues	**$ 280,212**	$ 245,745
Net income	**42,630**	29,070
Balance Sheet Data		
Total assets	**1,372,838**	1,355,301
Total stockholders' equity	**629,815**	599,395
Per Share Data		
Net income per share	**1.52**	1.17
Weighted average shares outstanding (thousands)	**28,138**	24,837
Other Financial Data		
EBITDA	**191,632**	166,233
Net debt to capitalization (%)	**48.0**	51.0
Capital Expenditures:		
Vessel purchases, gross	**65,104**	123,843
Drydocking	**23,124**	11,641
Operating cash flow per ship per day	**11,819**	10,613

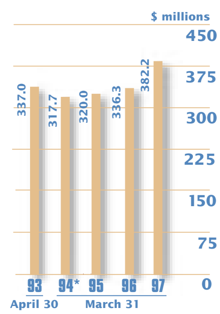
CASH FLOW [1]



* 11 month period ending March 31, 1994

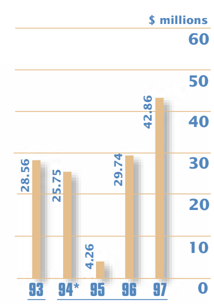
(1) Earnings before interest, taxes, depreciation and amortization (EBITDA)

REVENUE



* 11 month period ending March 31, 1994

EARNINGS [1]



* 11 month period ending March 31, 1994

(1) Net income before discontinued operations and foreign exchange translation

This was a successful year for Teekay.

The results of Teekay's first full year as a public company show steady growth and improvement in operating performance. Both cash flow and earnings for fiscal 1997 increased over the previous year. Net voyage revenues rose by 14 percent to $280.2 million and net income by over 46 percent to $42.6 million or $1.52 per share compared to $1.17 per share for the previous fiscal year. Average time charter equivalent rates increased from $18,438 to $20,356 per day and operating cash flow per ship-day from $10,613 to $11,819.

Captain James N. Hood,
President and
Chief Executive Officer

Overall, the Company's financial performance was encouraging, and we expect that it will continue to improve as the tanker market builds to full strength.

THE FLEET

Our strong performance reflects not only the improving tanker market but also our strategy of maintaining a large, modern fleet focused on serving major customers in the Indo-Pacific Basin.

Average fleet size for the year was 41 ships, compared to 39 in fiscal 1996. As of March 31, 1997 our owned fleet stood at 41 ships of 4.1 million deadweight tonnes, with an average age of just over 8 years, including 38 Aframax tankers, 10 of which are double-hulled. During the year we acquired two modern Aframaxes built in 1987 and 1988, and sold our 50 percent owned Amersham built in 1981. In addition, the 1996-built double-hull 105,000 tonne Seabridge was added to our fleet in April under time charter for 12 months from BHP Transport of Australia. In June of this year, we took delivery of Hamane Spirit, the most recent in our series of Onomichi-built double hull Aframaxes. Excluding periods off-hire our fleet was laden approximately 77 percent of the time during fiscal 1997.

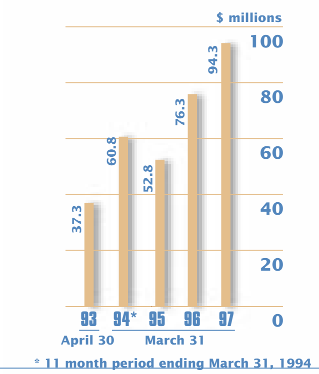
MARKET CONDITIONS AND OUTLOOK

The outlook for the world tanker market is dominated by two factors – the tonnage supply/demand balance and the impact of short-haul crude trades on tonne-mile demand. During calendar 1997, some 46 medium size and large tankers, including 22 Aframaxes will be delivered. Currently, the orderbook stands at around eleven percent of the existing tanker fleet, scrapping remains at a disappointing level, and we believe that tonne-mile demand growth will probably not exceed one percent per annum over the next two years.

On the positive side, however, some 87 VLCCs (Very Large Crude Carriers) will reach 25 years of age within the next three years, oil demand and seaborne oil trade are forecast to grow at around 2.5 to 3 percent per annum and regulatory pressures and discrimination against older tonnage continue to increase. Under these conditions, we believe that the balance between demand and supply of acceptable tonnage is, and will remain, tight and that earnings, while volatile, will continue to reflect this delicate balance. In addition, we expect that the increasing volume of short-haul crude trading and the regionalisation of the oil markets will benefit the Aframax sector.

We believe that many charterers are concerned about this tight balance and that competition to secure access to high quality, modern tonnage in the spot market will intensify over the next two or three years. While shipping policies vary from company to company, most charterers seem unwilling to commit to long-term charters and seek instead flexible, short-term solutions to their oil transportation needs. Teekay, with its large, modern fleet,

INCOME FROM VESSEL OPERATIONS



its operational and logistical expertise and its focus on customer service is well positioned to provide such solutions and can add competitively superior value for its customers with flexible freight contracts and strong operational support.

BUSINESS STRATEGY

At this time we intend to continue to trade the bulk of our fleet on the spot market within the Indo-Pacific Basin and to focus as before on the Australian, Japanese, South Korean and U.S. West Coast trades. The consistent quality of our fleet and operations provides a strong competitive advantage in these areas where there is an ongoing demand for modern, high quality ships, where port state authorities proactively enforce national and international regulations to weed out substandard ships and substandard operators, and where our customers demand the most rigorous performance standards. Two of these trades – Australia and the U.S. West Coast – continue to offer frequent opportunities to obtain cargoes inbound and outbound, and we have aggressively increased our market share of inbound cargoes to Australia in order to take advantage of the growing number of export cargoes from that country to the Far East.

The consistent quality of our fleet and operations provides a strong competitive advantage.

In addition to our general spot market trading, we have in place several time charters and contracts of affreightment with major customers in our region on both fixed and spot market-related terms which accounted for some 22 percent of our total net voyage revenue in fiscal 1997. Our fleet deployment strategy enables us to service these contracts efficiently and provide safe, flexible, competitive marine transportation as part of our customers' oil supply logistics chain.

GOING FORWARD

This was a successful year for Teekay compared to our own recent historical performance and to that of our peer group within the industry, yet our return on invested capital (ROIC) was a disappointing 7.7 percent. We expect that market conditions will improve in fiscal 1998 and 1999 which will have a positive impact on our ROIC. We recognize, however, that in this cyclical industry we must pursue a strategy that creates long-term value for our shareholders in both good markets and bad. To this end, we are building a value-creating culture throughout the Company and we continually review our priorities and our strategy accordingly. Performance measurement and management incentive programs are being geared to that objective.

Our main challenges going forward are to grow the Company profitably, to add economic and shareholder value through increased revenues and greater operating efficiencies, to respond to our customers' needs in a changing market environment, and to create and exploit new opportunities for growth within our industry.

Again I wish to thank all our shareholders for their confidence in Teekay and assure you of Management's commitment to long-term, profitable growth and value creation.

James N. Hood
President and Chief Executive Officer

We intend to pursue a strategy that creates long-term value for shareholders.

1996 – TOWARDS MARKET BALANCE

Freight rates in the world tanker market improved during 1996. This increase was the result of continued strong growth in oil demand and a consequent increase in tanker demand which outpaced modest fleet growth. Consequently, utilization of the world tanker fleet continued its recent growth trend.

In 1996, Teekay continued to focus on its core strengths: operating a large fleet of modern, Aframax tankers in the Indo-Pacific Basin spot market. During the past year, we made gains in market share on several premium routes because we concentrated even more on these quality sensitive trades and strengthened our focus on providing value-added service to key customers. We estimate that our market share in the Indo-Pacific region Aframax trade is approximately 25 percent, and greater than 50 percent on some premium routes.

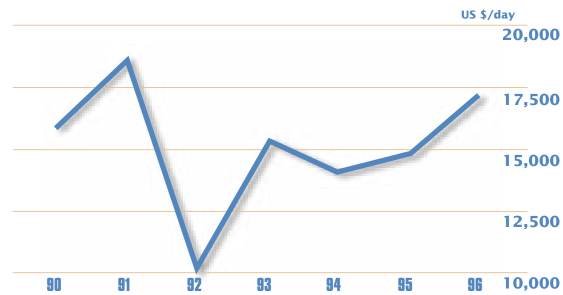
IMPROVED FREIGHT RATES

All segments of the tanker market recorded improved freight rates in 1996 for the second consecutive year. This rise in rates resulted from a further tightening in the balance between tanker supply and demand. However, at this point, rates do not support new tanker orders for the average operator: rates have not yet returned to the levels of 1991, the year of the last market peak, and in addition, the industry cost base is higher today than it was in the early 1990s.

MODERATE GROWTH IN DEMAND

1996 saw the strongest growth in oil demand since the late 1980s. Much of this increased demand was met by oil from the North Sea and Latin America which

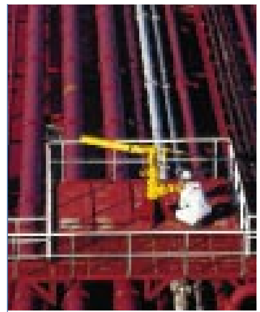
CONTINUED RISE IN AFRAMAX TCE RATES



Source: Clarkson

Bjorn Moller, Chief Operating Officer

The tanker market recorded improved freight rates in 1996 for the second consecutive year.



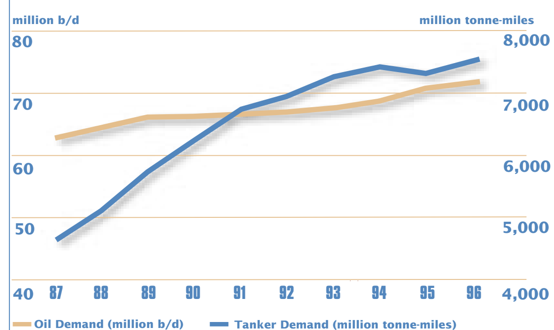
In the future,we can expect to see increased demand for quality transportation.

created only limited new demand for tankers due to the short-haul nature of these trades. Nevertheless, overall tanker demand rose by two percent for the year according to industry consultants, Maritime Strategies Inc. (MSI) and PIRA Energy Group. More than half of the increased oil demand came from Teekay's main area of operations in Asia.

For 1997, the International Energy Agency (IEA) forecasts a 2.4 percent growth in oil demand, and by the year 2000, demand is expected to reach 78.6 million barrels per day, representing an annual growth rate of 2.3 percent.

Changes in oil production patterns worldwide will continue to affect the way in which these increases in oil demand translate into tanker demand. The increase in short-haul crude oil move-

GROWTH IN DEMAND



Source: IEA, Fearnley's, PIRA Energy Group

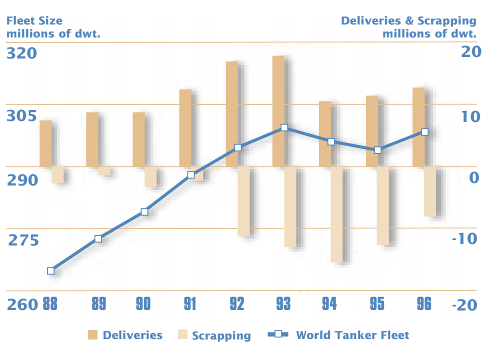
ment from the North Sea and Latin America will impact tanker demand negatively to the extent that it replaces rather than supplements long-haul crude oil.

DYNAMIC SUPPLY FUNDAMENTALS

The world tanker fleet grew by approximately one percent in 1996, reversing the decline of the past two years. Newbuilding deliveries at 12.4 million dwt. were up only slightly compared to 11.1 million dwt. in 1995.

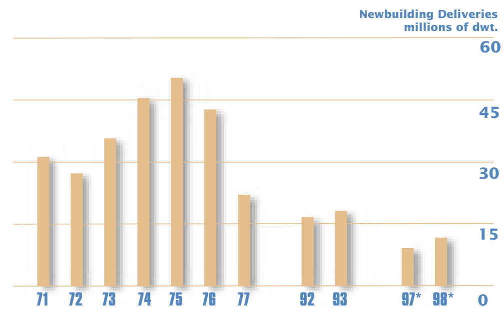
The growth of the world fleet was directly related to the decline in scrapping from 12.5 million dwt. in 1995 to 8.5 million dwt. in 1996 which was caused by stronger freight rates. Under these conditions, a drop in scrapping was to be expected, but it is notable that scrapping in 1996 was four times as high as the average annual rate during the last firm market in 1989-1991. This is a clear sign that technical obsolescence is playing an increasing role as a large

SLIGHT INCREASE IN TANKER SUPPLY



Source: Clarkson

CONTROLLED PACE OF DELIVERIES FOR 1997 AND 1998

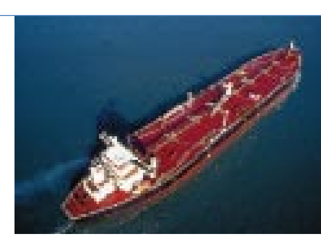


*Anticipated newbuilding deliveries based on current orderbook.
Source: Clarkson

part of the world fleet is reaching a critical age.

At the end of 1996, the world tanker orderbook stood at 23.7 million dwt., or eight percent of the world tanker fleet, up from a low of 19.0 million dwt. earlier in the year, but substantially unchanged from the six-year low at the end of 1995 of 22.8 million dwt. Deliveries for 1997 are expected to be lower than 1996 with 9.7 million dwt., and for 1998 are estimated at 12.7 million dwt.

When reviewing supply dynamics beyond the next two years, world ship building capacity must rank as a concern. During the first part of 1997 orderbook increases have been recorded for delivery in 1999 onward. At the end of April, 1997, the orderbook had risen to 30.3 million dwt., according to Clarkson Research. However, the orderbook is by no means high by

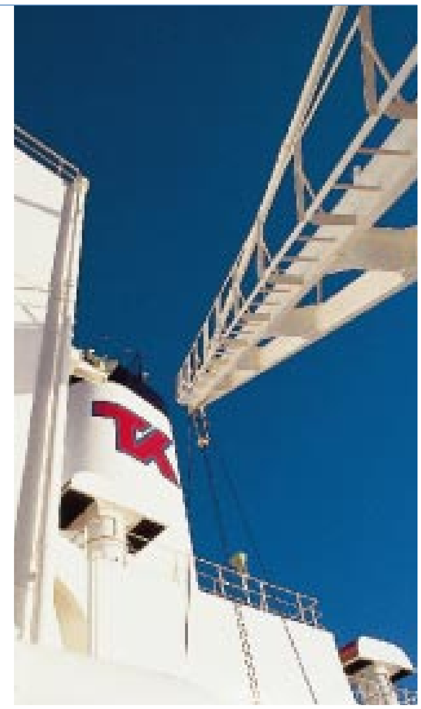


historical standards. Deliveries for the next two years are well below the last peak in deliveries in 1992-93, and nowhere near the prolonged period of high annual deliveries during 1971-77 which depressed tanker freight rates for extended periods during the next two decades.

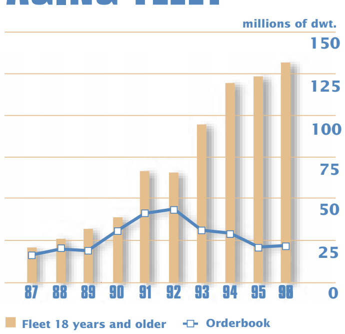
In addition, there is a major factor that reduces the threat of supply growth driven by yard capacity, namely the large proportion of aging tankers in the world fleet.

There is currently discussion in the tanker industry of operating tankers to 25 years and beyond through vessel repairs and modifications. Yet, tankers above 60,000 dwt. scrapped in 1996 had an average age of only 23 years, and of the 28.8 million dwt. tankers built in 1972, nearly 95 percent have been scrapped at or before reaching 25 years of age.

We do not believe that large scale operation of 25-year-old tankers is economically viable and therefore expect that a large number of mid-1970s-built tankers will be phased out over the next three years. The old tankers that do continue to trade will principally be employed in lower paying trades rather than competing on premium routes.

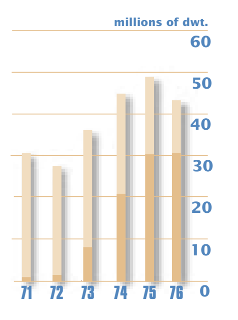


ORDERBOOK vs. AGING FLEET



Source: Clarkson

PHASE OUT OF MID-70s TANKERS



Source: Clarkson

MARKET OUTLOOK

The move towards balance between supply and demand looks set to continue over the next couple of years.

We expect to see a small increase in tanker demand in 1997 and 1998 as the net result of rising oil consumption and shorter average hauls. Further on, there is potential for some erosion in demand if the Middle East reduces oil production to balance global oil supply and demand.

The supply side is potentially more positive. The pace of newbuilding deliveries is very controlled over the next couple of years. In addition, while the orderbook is growing for delivery from 1999 onwards, the age distribution of the existing world fleet and the hurdles involved in trading 25-year-old ships on a large scale even in a good freight market, have the potential to more than offset the inflow of new tonnage. While the tanker market will continue to be cyclical, the number of tankers facing critical surveys and technical obsolescence over the rest of the decade is unprecedented, and has the potential to have a positive impact on the market.

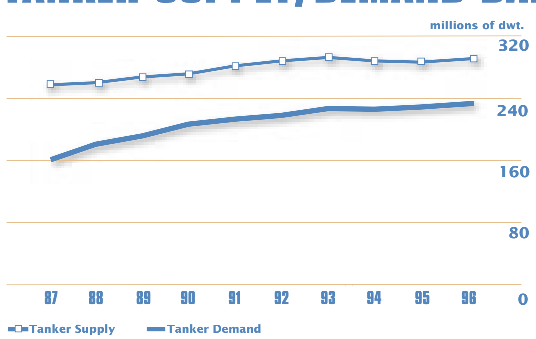
Through the end of 1998 we predict a finely balanced tanker market with firm freight rates, particularly for modern tonnage.

TEEKAY'S COMPETITIVE ADVANTAGES

Teekay's market position is continually strengthening as sensitivity to quality continues to increase.

Within the global tanker market, the Indo-Pacific region that Teekay serves shows the greatest potential for growth in oil demand. At the same time, a number of rapidly growing economies in this region which in the past have provided employment for many of the world's oldest tankers, are increasing their scrutiny of tankers. Furthermore, the world's major oil companies are increasing their cooperation in preventing substandard tonnage from calling at their terminals.

TANKER SUPPLY/DEMAND BALANCE



Source: Maritime Strategies Inc.

These factors indicate that in the future, we can expect to see increased demand for quality transportation. In fact, a number of our oil company customers now describe their marine activities as a "risk management function" rather than a "tanker business". More than ever, quality is becoming a strategic parameter.

Teekay is ideally positioned to prosper in the high quality segment of the world tanker market. The Company delivers value-added service which is tailored to maximize the benefit to the customer. Our large, homogenous fleet and the consistent high quality of operations enable us to offer greater flexibility in terms of programming customer cargo and making innovative freight service arrangements.

The oil companies and traders who work with Teekay can entrust their transportation to our Company rather than to a specific ship. This approach is part of our evolving strategy of taking our customer orientation to a new level, moving towards becoming an extended transportation department for our customers. The Operations Overview section which follows provides a more detailed look at the specific advantages that Teekay offers to its customers.

More than ever, quality is becoming a strategic parameter.

The Teekay Fleet
As at June 30, 1997

ONOMICHI CLASS — 15 SHIPS

	dwt.	Year Built
Hamane Spirit DH*	98,600	1997
Poul Spirit DH	98,600	1995
Torben Spirit DH	98,600	1994
Leyte Spirit DH	98,600	1992
Luzon Spirit DH	98,600	1992
Mayon Spirit DH	98,600	1992
Samar Spirit DH	98,600	1992
Palmstar Lotus	100,200	1991
Palmstar Thistle	100,200	1991
Teekay Spirit	100,200	1991
Onozo Spirit	100,200	1990
Palmstar Cherry	100,200	1990
Palmstar Poppy	100,200	1990
Palmstar Rose	100,200	1990
Palmstar Orchid	100,200	1989

IMABARI CLASS — 8 SHIPS

Senang Spirit DH	95,700	1994
Sebarok Spirit DH	95,700	1993
Seraya Spirit DS**	97,300	1992
Sentosa Spirit DS	97,300	1989
Alliance Spirit DS	97,300	1989
Semakau Spirit DS	97,300	1988
Singapore Spirit DS	97,300	1987
Sudong Spirit DS	97,300	1987

HYUNDAI CLASS - 6 SHIPS

Shilla Spirit	106,700	1990
Ulsan Spirit	106,700	1990
Frontier Spirit	106,700	1988
Namsan Spirit	106,700	1988
Pacific Spirit	106,700	1988
Pioneer Spirit	106,700	1988

OTHER AFRAMAX — 9 SHIPS

	dwt.	Year Built
Seabridge (1)	105,200	1996
Kyushu Spirit DS	95,600	1991
Koyagi Spirit	96,000	1989
Magellan Spirit DS	95,000	1985
Palm Monarch	89,900	1981
Oppama Spirit	90,300	1980
Mendana Spirit	81,700	1980
Honshu Spirit	88,300	1979
Tasman Spirit	87,600	1979

OIL/BULK/ORE (OBO) CARRIERS — 2 SHIPS

Victoria Spirit DH	103,200	1993
Vancouver Spirit DH	103,200	1992

OTHER SIZE TANKERS — 3 SHIPS

Musashi Spirit	280,700	1993
Scotland DS	40,800	1982
Chiba Spirit DB***	60,900	1980

TOTAL TONNAGE: 4,325,600

(1) Time-chartered-in for one year.

*** DH - Double-hull tanker**

**** DS - Double-sided tanker**

***** DB - Double bottomed tanker**

TEEKAY OPERATIONS

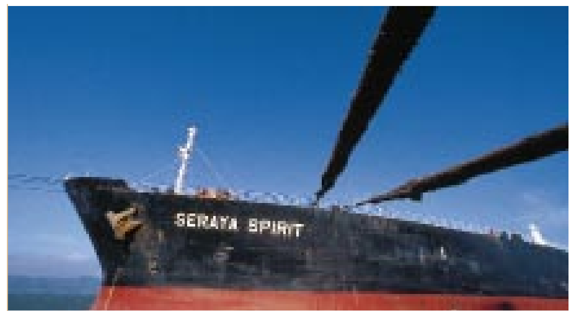
NASSAU:	HEADQUARTERS ADMINISTRATION
LONDON:	CHARTERING
GLASGOW:	CREWING
MUMBAI:	CREWING
SINGAPORE:	CHARTERING OPERATIONS TECHNICAL QUALITY CONTROL
MANILA:	CREWING
TOKYO:	CHARTERING TECHNICAL PURCHASING QUALITY CONTROL
SYDNEY:	QUALITY CONTROL
VANCOUVER:	CHARTERING OPERATIONS CREWING PURCHASING RISK MANAGEMENT QUALITY CONTROL FINANCIAL INFORMATION SYSTEMS

Value-added Transportation Solutions

Every day of the year, Teekay vessels transport valuable cargo for the world's major oil companies, refiners and traders. In today's increasingly competitive environment, these customers demand more than safe, reliable service, they want transportation solutions that can help them reduce operating costs and maximize their results.

Teekay has long recognized the importance of building long-term customer relationships by adding value to its service offering. The entire organization, on shore and at sea, is focused on providing the highest level of service to customers at each stage of the voyage.

Over the past year, Teekay tankers performed 525 voyages, traveling a total of 3.2 million miles, and carrying 325 million barrels of oil. Each one of these voyages represents a closely coordinated, well-timed exercise, planned and executed to optimize the return for both the customer and the Company.



Negotiating the Charter

Chartering tankers is a highly competitive and time-sensitive business. Negotiations are carried on around the clock and deals must be concluded quickly. Teekay maintains 24-hour presence in the tanker market with chartering offices in London, Vancouver, Singapore, and Tokyo to ensure that customers always receive prompt, responsive service.

HIGH QUALITY OPERATIONS

When negotiating the charter, Teekay staff draw on a modern fleet of 43 tankers which are maintained and operated to the highest quality standards. As part of the Company's business strategy to keep close control of the quality and cost of operations, all ship management functions are performed by in-house experts.

Meeting the standards of safety and preparedness required by the oil tanker industry is imperative for companies that trade on the spot market. Teekay has developed and implemented an aggressive inspection program aimed at ensuring that every vessel in the fleet satisfies the requirements of the oil companies' vetting inspections. Each ship is inspected at least twice a year by qualified Teekay personnel, covering more than 500 checkpoints. Prompt and thorough shore support from the Technical and Safety departments ensures that Teekay tankers are immediately acceptable for carrying cargo by the major oil companies.

TRADING FLEXIBILITY

The ability to offer worldwide options accommodates customers who continue to trade cargo while negotiating in the tanker market. Teekay vessels can trade in every market, including some of the most strictly regulated,

Meeting the most demanding standards

As part of the Company's strategy to provide transportation solutions tailored to customers' needs, Teekay vessels are constructed or retrofitted with equipment that meets customers' requirements.

Customer Benefit: Teekay ships can call at the most demanding terminals.

environmentally sensitive areas in the world, such as the U.S. West Coast, Japan and Australia. Teekay's proactive approach to customer service extends beyond compliance with mandated requirements for trading in these areas – the Company has constructed and retrofitted its vessels to meet its customers' specific requirements.

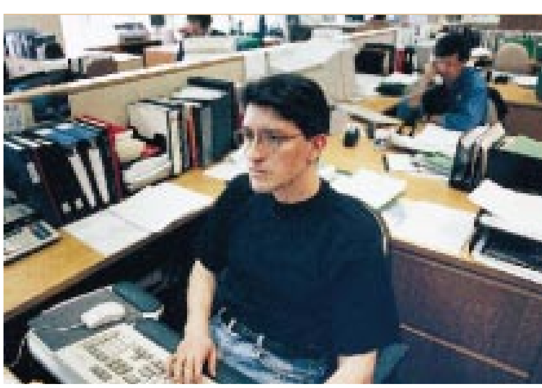
During charter negotiations, Teekay chartering staff assess the many variables and determine which vessel is best suited to handle the customer's needs.

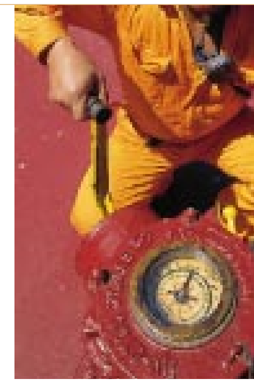
At this stage, loading arrangements with multiple suppliers, stowage optimization, regional vetting requirements and other issues are resolved. Effective communication systems move information quickly between ship and shore so that charter negotiations are concluded swiftly.

Universally acceptable

Acceptance by the major oil companies is essential for ship owners operating on the spot market. Teekay's resources on shore play an important role in making sure that oil company approvals are kept up-to-date: dedicated staff monitor the vetting schedule, arrange inspections and ensure that any questions are effectively resolved through the Company's Technical and Safety departments.

Customer Benefit: Assurance that every Teekay tanker meets the highest operating standards and will be accepted at any terminal.





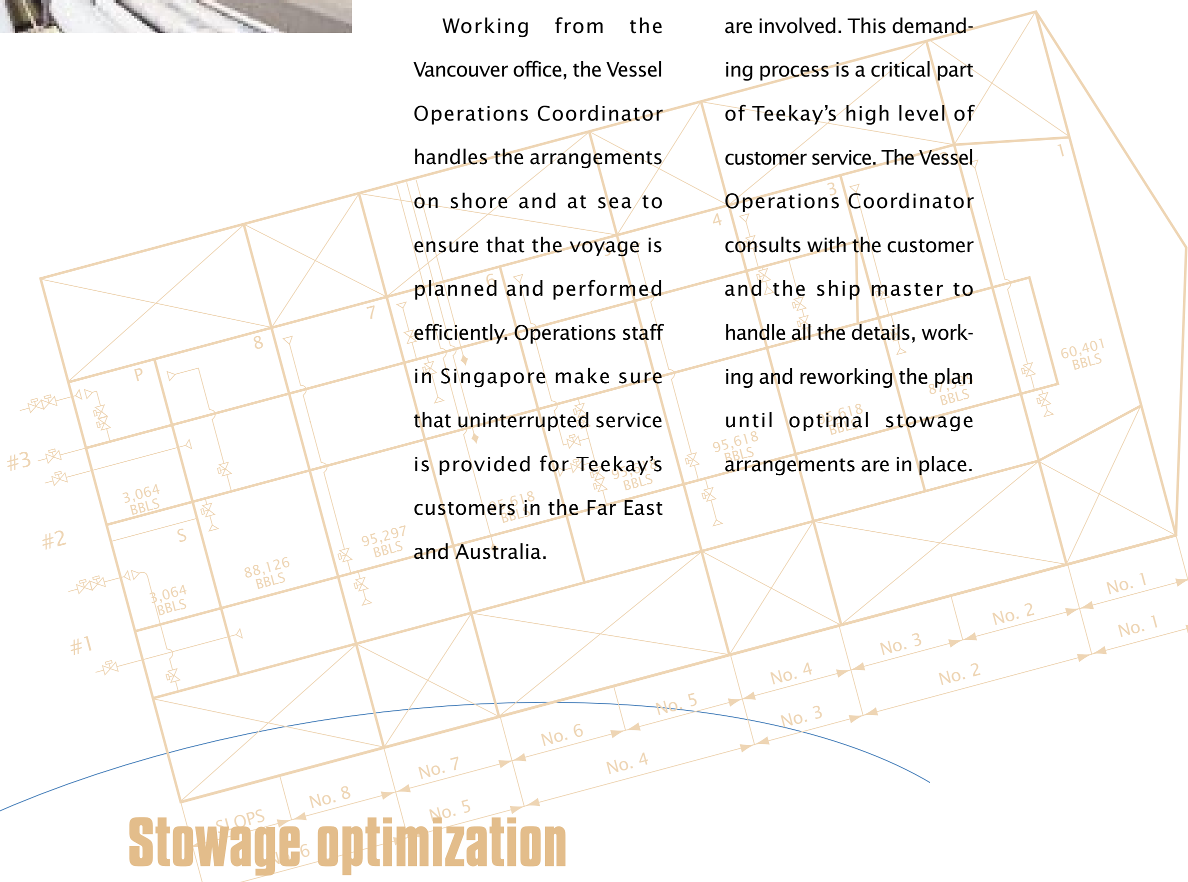
Voyage Planning

As soon as agreement is reached on the terms of the charter, Teekay's Commercial Operations department takes charge of voyage logistics.

Working from the Vancouver office, the Vessel Operations Coordinator handles the arrangements on shore and at sea to ensure that the voyage is planned and performed efficiently. Operations staff in Singapore make sure that uninterrupted service is provided for Teekay's customers in the Far East and Australia.

STOWAGE EXPERTISE

The Company's expertise and experience in handling complex stowage arrangements comes into play when multiple grades of cargo are involved. This demanding process is a critical part of Teekay's high level of customer service. The Vessel Operations Coordinator consults with the customer and the ship master to handle all the details, working and reworking the plan until optimal stowage arrangements are in place.



Stowage optimization

Stowage arrangements become increasingly complex, when loading different grades of cargo from a number of suppliers.

Customer Benefit: Optimal stowage arrangements help to maximize the results of the voyage.

ACCOMMODATING SCHEDULING CHANGES

When operating in an environment that is subject to change from many sources, scheduling flexibility becomes a key competitive advantage for Teekay and its customers. Even before the voyage begins, customer requirements can change and unexpected delays may be caused by port congestion in the previous voyage, weather conditions, or unplanned terminal delays.

Teekay's unique set of capabilities enable the Company to accommodate changes on short notice. The large fleet size, age profile and consistent quality of the Company's vessels trading in a concentrated area ensure that a suitable ship is often available when unexpected changes occur.

Scheduling flexibility

When customer requirements change or unexpected delays occur, Teekay can draw on its large, uniform fleet to offer an alternative vessel when necessary.

Customer Benefit: Accommodating changes on short notice minimizes the inconvenience to the customer.

Voyage Execution

The successful execution of the voyage draws on all of Teekay's strengths at sea and ashore. The consistent high quality of operations is supported by the highest standards of ship maintenance and management.

CONTINUITY OF SERVICE

The Company's staffing policies have created a knowledgeable and dedicated group of employees. All sea-going staff are employed exclusively by Teekay to ensure continuity of service, safety and reliability. The Company accesses, recruits, screens and selects highly qualified and experienced tanker personnel through its offices in Glasgow, Mumbai, Manila and Vancouver. An excellent working environment, attractive compensation and benefits, and access to opportunities for advancement sustain the commitment of all Teekay employees.

Proactive safety and staffing policies provide further assurance of high quality operations. Regular safety meetings, drills and training are part of the routine on board. In addition, every Teekay vessel carries an extra officer on board so that senior officers are always available and alert to attend to the critical stages of operations. This becomes especially important when transiting congested waters and during loading and discharge operations.

A commitment to training

Teekay provides opportunities for training, enrichment and advancement for officers, ratings and crew, as well as staff on shore. The Company has developed in-house, customized programs for officers and crew, and has dedicated two ships for training.

Customer Benefit: Knowledgeable, competent staff are vital to the safe transport and handling of valuable cargo.

Route optimization

Teekay ships are equipped with advanced weather tracking systems.

Customer Benefit: Helps to optimize routing, avoid heavy weather, prevent damage to ship or cargo, and supports timely delivery.

OPTIMIZING ROUTING

Information systems on board the vessel are used to optimize routing throughout the voyage. An advanced weather tracking system provides up-to-date information on weather patterns which enables the ship master to make better informed routing decisions. Following the most expeditious track supports safe and timely arrival of the cargo at the destination and helps to maximize the results of the voyage for the customer and the Company.

FACILITATING PORT TURNAROUND

The Vessel Operations Coordinator monitors the ship position, providing regular updates on vessel movements to the customer and port agents.

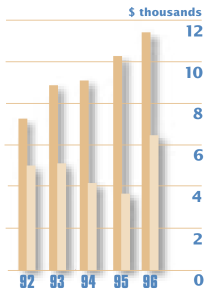
When the tanker reaches its destination, efficient port turnaround is essential. Teekay's representative port agents optimize port operations so that unproductive waiting time is kept to a minimum. In Japan and Korea, Teekay has appointed dedicated liason officers to facilitate communication at the discharge terminals.

The Company recognizes the value of reliable, high quality agents and works with those who are ISO accredited, have had media training, and have in place crisis management planning.

Timely delivery of the cargo marks the successful conclusion of the voyage. Experienced crew carry out the discharge and loading procedures, meeting port and customer requirements for safe and efficient handling of the cargo, while staff on shore are already planning the vessel's next voyage.

Results for fiscal 1997 show continued improvement in operating performance and financial condition.

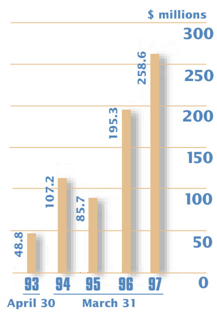
OPERATING CASH FLOW PER SHIP DAY



Teekay Shipping
Other bulk shipping companies*

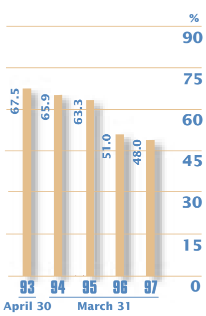
* weighted average of BEA, BSH, LOFS, OMI, OSG, SMT

LIQUIDITY (1)



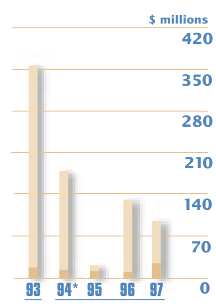
(1) Cash, marketable securities, and undrawn long-term credit lines

LEVERAGE (1)



(1) Net debt/capitalization

CAPITAL EXPENDITURES



* 11 month period ending March 31, 1994

Vessel purchases, gross
Drydocking

The Company is a leading provider of international crude oil and petroleum product transportation services to major oil companies, major oil traders, and government agencies, principally in the region spanning from the Red Sea to the U.S. West Coast. The Company's fleet consists of 42 tankers, including 39 Aframax oil tankers and oil/bulk/ore carriers, two smaller tankers, and one VLCC, for a total cargo-carrying capacity of approximately 4.2 million tonnes. An additional double-hull newbuilding Aframax tanker is scheduled for delivery on June 17, 1997.

Approximately 78% of the Company's net voyage revenue is currently derived from spot voyages. The balance of the Company's revenue is generated by two other modes of employment: time charters, whereby vessels are chartered to customers for a fixed period; and by contracts of affreightment, whereby the Company carries an agreed quantity of cargo for a customer over a specified trade route over a specified period of time. In aggregate, approximately 86% of the Company's net voyage revenue is currently derived from spot voyages and spot-market related contracts. This dependence on spot voyages, which is within industry norms, contributes to the volatility of the Company's revenue, cash flow from operations, and net income. Management believes that the Company has a competitive advantage over other tanker owners in the Aframax spot market.

Historically, the tanker industry has been cyclical, experiencing volatility in profitability resulting from changes in the supply of and demand for tankers. Additionally, tanker markets have exhibited seasonal variations in charter rates. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere and unpredictable winter weather patterns which tend to disrupt vessel scheduling.

RESULTS OF OPERATIONS

Bulk shipping industry freight rates are commonly measured at the net voyage revenue level in terms of "time charter equivalent" (or "TCE") rates, defined as voyage revenues less voyage expenses (excluding commissions), divided by revenue-generating ship-days for the round-trip voyage. Voyage revenues and voyage expenses are a function of the type of charter, either spot charter or time charter, and port, canal and fuel costs depending on the trade route upon which a vessel is sailing, in addition to being a function of the level of shipping freight rates. For this reason, shipowners base economic decisions regarding the deployment of their vessels upon anticipated TCE rates, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. Therefore, the discussion of revenue below focuses on net voyage revenue and TCE rates.

FISCAL 1997, FISCAL 1996, AND FISCAL 1995

The Company's net income was $42.6 million ($1.52 per share) in fiscal 1997, up from $29.1 million ($1.17 per share) in fiscal 1996, and $6.4 million ($0.35 per share) in fiscal 1995, reflecting improvement in the tanker charter market accompanied by a relatively stable cost environment.

The Company sold its remaining eight mid-1970s-built tankers in fiscal years 1995 and 1996, and acquired a total of six newer Aframax tankers in fiscal years 1996 and 1997. As a result, the Company's average fleet size increased by 4.6% in fiscal 1997 following a decrease of 7.1% from fiscal 1995 to 1996.

Net voyage revenue grew 14.0% to $280.2 million in fiscal 1997 from $245.7 million in fiscal 1996, and 4.6% in fiscal 1996 from $235.0 million in fiscal 1995, reflecting improving tanker charter market conditions and the effect of changes in the size of the fleet. The Company's average TCE rate in fiscal 1997 was up 10.4% to $20,356 from $18,438 in fiscal 1996, after an increase of 11.4% in fiscal 1996 from $16,552 in fiscal 1995.

Vessel operating expenses increased 7.0% to $72.6 million in fiscal 1997 from $67.8 million in fiscal 1996, and decreased 6.7% in fiscal 1996 from $72.7 million in fiscal 1995, mainly reflecting changes in fleet size.

Depreciation and amortization expense increased 10.1% to $90.7 million in fiscal 1997 from $82.4 million in fiscal 1996, as a result of an increase in average fleet size, and a higher than usual number of scheduled drydockings. Depreciation and amortization expense decreased 12.8% in fiscal 1996 from $94.5 million in fiscal 1995, as a result of a decrease in average fleet size and a revision to estimates of residual values of the Company's vessels as at April 1, 1995. The revision effectively reduced depreciation expense by approximately $9.4 million in fiscal 1996 as compared to fiscal 1995. Depreciation and amortization expense included amortization of drydocking costs of $10.9 million in fiscal 1997, $8.6 million in fiscal 1996, and $10.3 million in fiscal 1995.

General and administrative expenses rose 14.7% to $19.2 million in fiscal 1997 from $16.8 million in fiscal 1996, and 11.5% in fiscal 1996 from $15.0 million in fiscal 1995, as the result of increases in senior management compensation, the cost of compliance with increasingly stringent tanker industry regulations, and greater administrative costs subsequent to the acquisition of Teekay Shipping Limited in March 1995.

Interest expense decreased by 3.3% to $60.8 million in fiscal 1997 from $62.9 million in fiscal 1996, and by 5.1% in fiscal 1996 from $66.3 million in fiscal 1995. The decreases resulted primarily from a continued decline in the Company's total debt, partially offset by higher interest rates resulting from the issue of $225 million 8.32% First Preferred Ship Mortgage Notes in January 1996. Interest income of $6.4 million in fiscal 1997, $6.5 million in fiscal 1996, and $5.9 million in fiscal 1995, largely reflected increasing cash balances offset in fiscal 1997 by lower interest rates.

Other income of $2.8 million in fiscal 1997 and $9.2 million in fiscal 1996 consisted primarily of gains on the sale of a 50%-owned tanker in fiscal 1997 and two vessels in fiscal 1996. Other income of $12.8 million in fiscal 1995 included an $18.2 million gain on the sale of six vessels, partially offset by $4.3 million in losses on available-for-sale securities and a $2.1 million equity loss from the Company's 50% investment in VCSC.

The following table illustrates the relationship between fleet size (measured in ship-days), time charter equivalent ("TCE") per revenue-generating ship-day performance, and operating results per calendar ship-day:

	Year Ended March 31, 1997	Year Ended March 31, 1996	Year Ended March 31, 1995
Total calendar ship-days	**14,937**	14,310	15,315
Non-revenue days	**866**	698	822
Revenue-generating ship-days (A)	**14,071**	13,612	14,493
Net voyage revenue before commissions (B) (000s)	**$ 286,429**	$ 250,981	$ 239,888
Time charter equivalent (TCE) (B/A)	**$ 20,356**	$ 18,438	$ 16,552
Operating results per calendar ship-day:			
Net voyage revenue	**$ 18,760**	$ 17,173	$ 15,345
Vessel operating expense	**4,922**	4,787	4,748
General and administrative expense	**1,286**	1,171	981
Drydocking expense	**733**	602	672
Operating cash flow per calendar ship-day	**$ 11,819**	$ 10,613	$ 8,944

LIQUIDITY AND CAPITAL RESOURCES

The Company's total liquidity, including cash, cash equivalents and undrawn long-term lines of credit, was $258.6 million as at March 31, 1997, up from $197.3 million as at March 31, 1996, and $85.7 million as at March 31, 1995, as a result of internally generated cash flow and debt refinancings. Net cash flow from operating activities rose to $139.2 million in fiscal 1997, compared to $98.4 million and $90.0 million in fiscal years 1996 and 1995, respectively, reflecting an improvement in tanker charter market conditions.

The Company's scheduled debt repayments were $16.0 million during fiscal 1997, down significantly from $57.9 million in fiscal 1996 and $87.6 million in fiscal 1995, as a result of debt refinancings which have lengthened repayment terms. In October 1996, the Company completed two new term loan facilities (the "Term Loan Facilities"), with seven commercial banks providing borrowings of up to $210 million in order to refinance existing debt at improved rates and credit terms. The Term Loan Facilities also provided an additional $49 million of liquidity to the Company.

Dividend payments during fiscal 1997 were $24.1 million, or 86 cents per share, of which $13.5 million was paid in cash and $10.6 million was paid in the form of common shares issued under the Company's dividend reinvestment plan.

During fiscal 1997, the Company incurred capital expenditures for vessels and equipment of $65.1 million, mainly as a result of the acquisition of two modern, second-hand Aframax tankers, the SEMAKAU SPIRIT and the SINGAPORE SPIRIT (formerly the GALAXY RIVER). These acquisitions were financed through the Term Loan Facilities completed in October 1996. As a result of a larger number of scheduled drydockings in fiscal 1997, capital expenditures for drydocking were $16.6 million in fiscal 1997, compared to $7.4 million in fiscal 1996 and $14.4 million in fiscal 1995.

A double-hull newbuilding Aframax tanker is scheduled for delivery on June 17, 1997 for a total cost of $44.5 million. At March 31, 1997, payments of $8.9 million had been made towards this commitment and a $35.6 million long-term financing arrangement exists for the remaining unpaid cost of this vessel.

FORWARD-LOOKING STATEMENTS

The Company's Annual Report on Form 20-F for the fiscal year ended March 31, 1997 and this Annual Report to Shareholders for 1997 contain forward-looking statements (as defined in Section 21E of the Securities Exchange Act of 1934, as amended) which reflect management's current views with respect to future events and financial performance, in particular the statements regarding an improvement in the tanker market conditions and the Company's return on invested capital in fiscal years 1998 and 1999; the Company's competitive advantage over other tanker owners in the Aframax spot market; the number of mid-1970s-built tankers in the market that will be phased out over the next three years; the increase in tanker demand in 1997 and 1998; and the balance of supply and demand in the tanker market. The following factors are among those that could cause actual results to differ materially from the forward-looking statements and that should be considered in evaluating any such statement: changes in production of or demand for oil and petroleum products, either generally or in particular regions; greater than anticipated levels of tanker newbuilding orders or less than anticipated rates of tanker scrapping; changes in trading patterns significantly impacting overall tanker tonnage requirements; changes in the typical seasonal variations in tanker charter rates; unanticipated changes in laws and regulations and the Company's ability to comply with all existing and future laws and regulations; changes in demand for modern, high quality vessels; risks incident to vessel operation, including pollution; and other risks detailed from time to time in the Company's periodic reports filed with the U.S. Securities and Exchange Commission. The Company may issue additional written or oral forward-looking statements from time to time which are qualified in their entirety by the cautionary statement contained in this paragraph and in other reports hereafter filed by the Company with the U.S. Securities and Exchange Commission.

TO THE SHAREHOLDERS OF TEEKAY SHIPPING CORPORATION

We have audited the accompanying consolidated balance sheets of Teekay Shipping Corporation and subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended March 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teekay Shipping Corporation and subsidiaries as at March 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1997, in conformity with accounting principles generally accepted in the United States.

Ernst & Young

Nassau, Bahamas

May 7, 1997

Chartered Accountants

Consolidated Statements of Income and Retained Earnings

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

	Year Ended March 31, 1997	Year Ended March 31, 1996	Year Ended March 31, 1995
NET VOYAGE REVENUES			
Voyage revenues	**$ 382,249**	$ 336,320	$ 319,966
Voyage expenses	**102,037**	90,575	84,957
Net voyage revenues	**$ 280,212**	$ 245,745	$ 235,009
OPERATING EXPENSES			
Vessel operating expenses	**$ 72,586**	$ 67,841	$ 72,723
Time charter hire expense	**3,461**	2,503	
Depreciation and amortization	**90,698**	82,372	94,452
General and administrative *(note 3)*	**19,209**	16,750	15,018
	$ 185,954	$ 169,466	$ 182,193
Income from vessel operations	**$ 94,258**	$ 76,279	$ 52,816
OTHER ITEMS			
Interest expense	**$ (60,810)**	$ (62,910)	$ (66,304)
Interest income	**6,358**	6,471	5,904
Other income *(note 10)*	**2,824**	9,230	12,839
	$ (51,628)	$ (47,209)	$ (47,561)
Net income before cumulative effect of accounting change	**$ 42,630**	$ 29,070	$ 5,255
Cumulative effect of change in accounting for marketable securities *(note 1)*			1,113
Net income	**$ 42,630**	$ 29,070	$ 6,368
Retained earnings, beginning of the year	**363,690**	406,547	400,179
	$ 406,320	$ 435,617	$ 406,547
Exchange of redeemable preferred stock *(note 8)*		(60,000)	
Dividends declared and paid	**(24,142)**	(11,927)	
Retained earnings, end of the year	**$ 382,178**	$ 363,690	$ 406,547
EARNINGS PER SHARE AMOUNTS *(note 1)*			
Net income before cumulative effect of accounting change	**$ 1.52**	$ 1.17	$ 0.29
Cumulative effect of change in accounting for marketable securities			0.06
Net income	**1.52**	1.17	0.35
Weighted average number of common shares outstanding	**28,138,187**	24,837,109	18,000,000

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

Consolidated Balance Sheets

(in thousands of U.S. dollars)

	As at March 31, 1997	As at March 31, 1996
ASSETS		
Current		
Cash and cash equivalents	**$ 117,523**	$ 101,780
Accounts receivable		
– trade	**25,745**	22,213
– other	**1,066**	2,725
Prepaid expenses and other assets	**14,666**	15,331
Total current assets	**$ 159,000**	$ 142,049
Vessels and equipment *(notes 1,5 and 9)*		
At cost, less accumulated depreciation of $457,779		
(1996 – $377,105)	**$ 1,187,399**	$ 1,193,557
Advances on vessels	**8,938**	5,250
Total vessels and equipment	**$ 1,196,337**	$ 1,198,807
Investment	**6,335**	1,624
Other assets	**11,166**	12,821
	$ 1,372,838	$ 1,355,301
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable	**$ 16,315**	$ 11,761
Accrued liabilities *(note 4)*	**26,982**	18,303
Current portion of long-term debt *(note 5)*	**36,283**	19,102
Total current liabilities	**$ 79,580**	$ 49,166
Long-term debt *(note 5)*	**$ 663,443**	$ 706,740
Total liabilities	**$ 743,023**	$ 755,906
Stockholders' equity		
Capital stock *(note 8)*	**$ 247,637**	$ 235,705
Retained earnings	**382,178**	363,690
Total stockholders' equity	**$ 629,815**	$ 599,395
	$ 1,372,838	$ 1,355,301

Commitments and contingencies (notes 5, 6 and 9)

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

Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

		Year Ended March 31, 1997		Year Ended March 31, 1996		Year Ended March 31, 1995
Cash and cash equivalents provided by (used for)						
OPERATING ACTIVITIES						
Net income from operating activities	**$**	**42,630**	$	29,070	$	5,255
Add (deduct) charges to operations not requiring						
a payment of cash and cash equivalents:						
Depreciation and amortization		**90,698**		82,372		94,452
Gain on disposition of assets				(8,784)		(18,245)
Loss (gain) on available-for-sale securities				(55)		4,303
Equity loss (income) (net of dividend received:						
March 31, 1997 – $282)		**(2,414)**		(1,139)		2,089
Other – net		**2,785**		2,507		914
Change in non-cash working capital items related to						
operating activities *(note 11)*		**5,459**		(5,556)		1,251
Net cash flow from operating activities	**$**	**139,158**	$	98,415	$	90,019
FINANCING ACTIVITIES						
Proceeds from long-term debt	**$**	**240,000**	$	448,000		
Scheduled repayments of long-term debt		**(16,038)**		(57,850)		(87,570)
Prepayments of long-term debt		**(250,078)**		(505,962)		(15,033)
Scheduled payments on capital lease obligations				(1,527)		
Prepayments of capital lease obligations				(43,023)		
Net proceeds from issuance of Common Stock		**1,283**		137,872		
Cash dividends paid		**(13,493)**		(7,094)		
Capitalized loan costs		**(1,130)**		(5,965)		(1,565)
Net cash flow from financing activities	**$**	**(39,456)**	$	(35,549)	$	(104,168)
INVESTING ACTIVITIES						
Expenditures for vessels and equipment						
(net of capital lease financing of:						
(March 31, 1997 – $NIL; March 31, 1996 –						
$44,550; March 31, 1995 – $NIL)	**$**	**(65,104)**	$	(79,293)	$	(7,465)
Expenditures for drydocking		**(16,559)**		(7,405)		(14,431)
Proceeds from disposition of assets				28,428		16,817
Net cash flow from investment		**(2,296)**		3,273		2,650
Proceeds on sale of available-for-sale securities				111,770		110,806
Purchases of available-for-sale securities				(41,993)		(115,085)
Other						39
Net cash flow from investing activities	**$**	**(83,959)**	$	14,780	$	(6,669)
Increase (decrease) in cash and cash equivalents	**$**	**15,743**	$	77,646	$	(20,818)
Cash and cash equivalents, beginning of the year		**101,780**		24,134		44,952
Cash and cash equivalents, end of the year	**$**	**117,523**	$	101,780	$	24,134

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. They include the accounts of Teekay Shipping Corporation ("Teekay" – which is incorporated under the laws of Liberia) and its wholly owned or controlled subsidiaries (the "Company"). Significant intercompany items and transactions have been eliminated upon consolidation.

On March 31, 1995, Teekay acquired 100% of the outstanding stock of Teekay Shipping Limited ("TSL"), an affiliated company, for cash consideration of $776,000 representing the net book value of TSL at March 31, 1995. The impact of this transaction on the financial position and results of operations of Teekay is not considered significant. The assets and liabilities of TSL have been combined with those of Teekay effective March 31, 1995. Teekay's results of operations include those of TSL subsequent to that date. As a result, certain voyage expenses which were paid to TSL have been reclassified to general and administrative expenses, in order to conform with the presentation adopted subsequent to March 31, 1995.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Reporting currency

The consolidated financial statements are stated in U.S. dollars because the Company operates in international shipping markets which utilize the U.S. dollar as the functional currency.

Investment

The Company's 50% interest in Viking Consolidated Shipping Corp. ("VCSC") is carried at the Company's original cost plus its proportionate share of the undistributed net income. On March 12, 1997, VCSC entered into an agreement to sell its one remaining vessel and it is not anticipated that the operating companies of VCSC will have active operations in the near future. The disposal of this vessel and the related gain on sale has been reflected in these consolidated financial statements (see Note 10 – Other Income).

Operating revenues and expenses

Voyage revenues and expenses are recognized on the percentage of completion method of accounting. Estimated losses on voyages are provided for in full at the time such losses become evident. The consolidated balance sheets reflect the deferred portion of revenues and expenses applicable to subsequent periods.

Voyage expenses comprise all expenses relating to particular voyages, including bunker fuel expenses, port fees, canal tolls, and brokerage commissions. Vessel operating expenses comprise all expenses relating to the operation of vessels, including crewing, repairs and maintenance, insurance, stores and lubes, and miscellaneous expenses including communications.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Marketable securities

The Company adopted the Statement of Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115") for the year ended March 31, 1995. In applying FAS 115, investments in marketable securities (disposed of during fiscal 1996) have been classified by management as available-for-sale securities and are carried at fair value. Net unrealized gains or losses on available-for-sale securities are reported as a separate component of stockholders' equity. The cumulative effect on opening retained earnings from application of this Statement has been reflected separately as an adjustment to net income for the year ended March 31, 1995.

Vessels and equipment

All pre-delivery costs incurred during the construction of new buildings, including interest costs, and supervision and technical costs are capitalized. The acquisition cost and all costs incurred to restore used vessel purchases to the standard required to properly service the Company's customers are capitalized. Depreciation is calculated on a straight-line basis over a vessel's useful life, estimated by the Company to be twenty years from the date a vessel is initially placed in service.

Effective April 1, 1995, the Company revised its estimates of the residual values of its vessels. The effect of this change in estimated residual values was to reduce depreciation expense for the years ended March 31, 1997 and March 31, 1996 by $9.2 million (or $0.33 per common share) and $9.4 million (or $0.38 per common share), respectively.

Interest costs capitalized to vessels and equipment for the years ended March 31, 1997, 1996 and 1995 aggregated $232,000, $106,000, and $151,000, respectively.

Expenditures incurred during drydocking are capitalized and amortized on a straight-line basis over the period until the next anticipated drydocking. When significant drydocking expenditures recur prior to the expiry of this period, the remaining balance of the original drydocking is expensed in the month of the subsequent drydocking. Drydocking expenses amortized for the years ended March 31, 1997, 1996 and 1995 aggregated $10,941,000, $8,617,000, and $10,281,000, respectively.

Vessels acquired pursuant to bareboat hire purchase agreements are capitalized as capital leases and are amortized over the estimated useful life of the acquired vessel.

Other assets

Loan costs, including fees, commissions and legal expenses, are capitalized and amortized over the term of the relevant loan. Amortization of loan costs is included in interest expense.

Interest rate swap and cap agreements

The differential to be paid or received is accrued as interest rates change and is recognized as an adjustment to interest expense. Premiums paid for interest rate cap agreements are recorded at cost. Premiums and receipts, if any, are recognized as adjustments to interest expense over the lives of the individual contracts.

Forward contracts

The Company enters into forward contracts as a hedge against changes in foreign exchange rates. Market value gains and losses are deferred and recognized in the period when the hedged transaction is recorded in the accounts.

Cash flows

Cash interest paid during the years ended March 31, 1997, 1996 and 1995 totalled $57,400,000, $59,021,000, and $65,368,000, respectively.

The Company classifies all highly liquid investments with a maturity date of three months or less when purchased as cash and cash equivalents.

Income taxes

The legal jurisdictions of the countries in which Teekay and its subsidiaries are incorporated do not impose income taxes upon shipping-related activities.

Earnings per share

Earnings per share amounts are based upon the weighted average number of common shares outstanding during each period, after giving effect to the 1 for 2 reverse stock split (see Note 8 – Capital Stock). Stock options have not been included in the computation of the earnings per share amounts since their effect thereon would not be material.

Accounting for Stock-Based Compensation

Effective April 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." SFAS 123 requires expanded disclosures of stock-based compensation arrangements with employees and encourages (but does not require) companies to record compensation costs associated with employee stock option awards, based on estimated fair values at the grant dates. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 (APB 25) "Accounting for Stock Issued to Employees" and has disclosed the required pro forma effect on net income and net income per share as if the fair value method of accounting as prescribed in SFAS 123 had been applied (see Note 8 – Capital Stock).

(all tabular amounts stated in thousands of U.S. dollars)

2. BUSINESS OPERATIONS

The Company is engaged in the ocean transportation of petroleum cargoes worldwide through the ownership and operation of a fleet of tankers. All of the Company's revenues are earned in international markets.

The Company had one charterer (an international oil company) during fiscal 1997 from which voyage revenues exceeded 10% of total voyage revenues. Voyage revenues from such charterer amounted to $48,696,000.

3. CONTRACTUAL RELATIONSHIPS

Prior to the acquisition of TSL, (see Note 1 – Basis of presentation), TSL and its affiliated companies rendered administrative, operating and ship management services to the Company in return for a monthly fee and commissions at rates considered usual and customary to the industry. Fees and commissions incurred, included in general and administrative expenses, for the year ended March 31, 1995 aggregated $11,826,000. Commissions incurred, related to vessel dispositions, for the year ended March 31, 1995 aggregated $295,000.

4. ACCRUED LIABILITIES

	March 31, 1997	March 31, 1996
Voyage and vessel	**$ 15,458**	$ 9,053
Interest	**9,294**	7,789
Payroll and benefits	**2,230**	1,461
	$ 26,982	$ 18,303

5. LONG-TERM DEBT

	March 31, 1997	March 31, 1996
Revolving Credit Facility	**$**	$ 118,000
First Preferred Ship Mortgage Notes (8.32%)		
U.S. dollar debt due through 2008	**225,000**	225,000
First Preferred Ship Mortgage Notes (9 5/8%)		
U.S. dollar debt due through 2004	**151,200**	151,200
Floating rate (LIBOR + 0.65% to 1 1/2%)		
U.S. dollar debt due through 2006	**323,526**	231,642
	699,726	725,842
Less current portion	**36,283**	19,102
	$ 663,443	$ 706,740

As at March 31, 1997, the Revolving Credit Facility (the "Revolver") provided for borrowings of up to $141.1 million (the "commitment amount") on a revolving credit basis. The commitment amount reduces by $6.9 million semi-annually each June and December together with a final balloon reduction in June 2003. Interest payments are based on LIBOR plus a margin ranging from 0.80% to 1.25%, depending on the financial leverage of the Company. The Revolver is collateralized by first priority mortgages granted on ten of the Company's Aframax tankers, together with certain other related collateral, and a guarantee from the Company for all amounts outstanding under the Revolver.

The 8.32% First Preferred Ship Mortgage Notes due February 1, 2008 (the "8.32% Notes") are collateralized by first preferred mortgages on seven of the Company's Aframax tankers, together with certain other related collateral, and are guaranteed by seven subsidiaries of Teekay that own the mortgaged vessels (the "8.32% Notes Guarantor Subsidiaries") to a maximum of 95% of the fair value of their net assets. As at March 31, 1997, the fair value of these net assets approximated $278 million. The 8.32% Notes are also subject to a sinking fund, which will retire $45 million principal amount of the 8.32% Notes on each February 1, commencing 2004.

Upon the 8.32% Notes achieving Investment Grade Status and subject to certain other conditions, the guarantees of the 8.32% Notes Guarantor Subsidiaries will terminate, all of the collateral securing the obligations of the Company and the 8.32% Notes Guarantor Subsidiaries under the Indenture and the Security Documents will be released (whereupon the Notes will become general unsecured obligations of the Company) and certain covenants under the Indenture will no longer be applicable to the Company.

The 9⅝% First Preferred Ship Mortgage Notes due July 15, 2003 (the "9⅝% Notes") are collateralized by first preferred mortgages on six of the Company's Aframax tankers, together with certain other related collateral, and are guaranteed by six subsidiaries of Teekay that own the mortgaged vessels (the "9⅝% Notes Guarantor Subsidiaries") to a maximum of 95% of the fair value of their net assets. As at March 31, 1997, the fair value of these net assets approximated $191 million. The 9⅝% Notes are also subject to a sinking fund, which will retire $25 million principal amount of the 9⅝% Notes, on each July 15, commencing July 15, 1997. During first quarter of fiscal 1996, the Company retired $23.8 million of the 9⅝% Notes, which will be applied to reduce the July 15, 1997 sinking fund requirement. The 9⅝% Notes are redeemable at the option of the Company, in whole or in part, on or after July 15, 1998 at the following redemption prices expressed as a percentage of principal:

July 15	Redemption Price
1998	104.813%
1999	102.406%
2000	100.000%

Upon a Change of Control each 9⅝% Note holder and 8.32% Note holder has the right, unless the Company elects to redeem these Notes, to require the Company to purchase these Notes at 101% of their principal amount plus accrued interest.

All other floating rate loans are collateralized by first preferred mortgages on the vessels to which the loans relate, together with certain other collateral, and guarantees from the parent Company. In certain instances second preferred mortgages have been recorded against specific vessels.

5. LONG-TERM DEBT continued

Among other matters, the long-term debt agreements generally provide for such items as maintenance of certain vessel market value to loan ratios and minimum consolidated financial covenants, prepayment privileges (in some cases with penalties), and restrictions against the incurrence of additional debt and new investments by the individual subsidiaries without prior lender consent. The amount of Restricted Payments, as defined, that the Company can make, including dividends and purchases of its own capital stock, is limited as of March 31, 1997, to $58.7 million.

As at March 31, 1997, the Company was committed to a series of interest rate swap agreements whereby $150 million of the Company's floating rate debt was swapped with fixed rate obligations having an average remaining term of 19.5 months. The swap agreements expire between October 1998 and December 1998. These arrangements effectively change the Company's interest rate exposure on $150 million of debt from a floating LIBOR rate to an average fixed rate of 5.86%. The Company is exposed to credit loss in the event of non-performance by the counter parties to the interest rate swap agreements; however, the Company does not anticipate non-performance by any of the counter parties.

The aggregate annual long-term debt principal repayments required to be made for the five fiscal years subsequent to March 31, 1997 are $36,283,000 (fiscal 1998), $69,093,000 (fiscal 1999 - 2001), and $80,324,000 (fiscal 2002).

6. LEASES

Charters-out

Time charters to third parties of the Company's vessels are accounted for as operating leases. The minimum future revenues to be received on time charters currently in place are $34,893,000 (fiscal 1998) and $3,875,000 (fiscal 1999).

The minimum future revenues should not be construed to reflect total charter hire revenues for any of the years.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amounts of all financial instruments approximate fair market value except for the following:

Long-term debt – The fair values of the Company's fixed rate long-term debt are based on either quoted market prices or estimated using discounted cash flow analyses, based on rates currently available for debt with similar terms and remaining maturities.

Interest rate swap and cap agreements – The fair value of interest rate swaps, used for hedging purposes, is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties. The fair value of interest rate cap agreements is the estimated amount that the Company would receive from selling the contracts as at the reporting date.

The estimated fair value of the Company's financial instruments is as follows:

	March 31, 1997		March 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 117,523**	**$ 117,523**	$ 101,780	$ 101,780
Long-term debt	**699,726**	**695,265**	725,842	723,056
Interest rate swap agreements – net receivable				
(payable) position		**1,154**		(60)
Interest rate cap agreements			618	10

The Company transacts with investment grade rated financial institutions and requires no collateral from these institutions.

8. CAPITAL STOCK

Authorized

25,000,000 Preferred Stock with a par value of $1 per share

125,000,000 Common Stock with no par value

	Common Stock	Thousands of Shares	Preferred Stock	Thousands of Shares
Issued and outstanding				
Balance March 31, 1994 and 1995	$ 33,000	36,000	$ 1	600
May 15, 1995 1-for-2 Reverse Common Stock Split		(18,000)		
July 19, 1995 Initial Public Offering 6,900,000				
shares at $21.50 per share of Common				
Stock (net of share issue costs)	137,613	6,900		
July 19, 1995 Exchange of Redeemable Preferred				
Stock for 2,790,698 shares of Common Stock	60,000	2,791	(1)	(600)
Reinvested Dividends	4,833	201		
Exercise of Stock Options	259	12		
Balance March 31, 1996	$ 235,705	27,904	$ 0	0
Reinvested Dividends	10,649	364		
Exercise of Stock Options	1,283	60		
Balance March 31, 1997	$ 247,637	28,328	$ 0	0

The Company has reserved 2,076,862 shares of Common Stock for issuance upon exercise of options granted pursuant to the Company's 1995 Stock Option Plan (the "Plan").

During fiscal 1997 and 1996, the Company granted options under the Plan to acquire up to 343,250 and 796,750 shares of Common Stock (the "Grants"), respectively, to certain eligible officers, key employees

(all tabular amounts stated in thousands of U.S. dollars)

8. CAPITAL STOCK continued

(including senior sea staff), and directors of the Company. The options have a 10-year term and follow a graded-vesting schedule. The options granted during fiscal 1997 vest equally over four years from the date of grant. Three quarters of the options granted during fiscal 1996 have vested and the remaining quarter will vest during fiscal 1998.

A summary of the Company's stock option activity, and related information for the years ended March 31 follows:

	Fiscal 1997		Fiscal 1996	
	Options (000's)	Weighted Average Exercise Price	Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of year	**779**	**$ 21.50**	0	$ 21.50
Granted	**343**	**27.38**	797	21.50
Exercised	**(60)**	**21.50**	(12)	21.50
Forfeited	**(6)**	**24.00**	(6)	21.50
Outstanding, end of year	**1,056**	**$ 23.40**	779	$ 21.50
Exercisable at end of year	**519**	**$ 21.50**	383	$ 21.50
Weighted-average fair value of options granted during the year (per option)	**$ 6.72**		$ 5.16	

Exercise prices for the options outstanding as of March 31, 1997 ranged from $21.50 to $27.38 and have a weighted-average remaining contractual life of 8.57 years.

The Company applies APB 25, "Accounting for Stock Issued to Employees" and related Interpretations in accounting for its employee stock options (see Note 1 – Accounting for Stock-Based Compensation). Under APB 25, because the exercise price of the Company's employee stock options equals the market price of underlying stock on the date of grant, no compensation expense is recognized.

Had the Company recognized compensation costs for the Grants consistent with the methods recommended by SFAS 123 (see Note 1 – Accounting for Stock-Based Compensation), the Company's net income and net income per share for those years ended would have been stated at the pro forma amounts as follows:

	Year Ended March 31, 1997	Year Ended March 31, 1996
Net income:		
As reported	**$ 42,630**	$ 29,070
Pro forma	**40,679**	26,842
Net income per common share:		
As reported	**$ 1.52**	$ 1.17
Pro forma	**1.45**	1.08

The fair values of the Grants were estimated on the dates of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free average interest rates of 6.44% and 6.14% for fiscal 1997 and fiscal 1996, respectively, dividend yield of 3.0%; expected volatility of 25%; and expected lives of 5 years.

9. COMMITMENTS AND CONTINGENCIES

As at March 31, 1997, the Company was committed to foreign exchange contracts for the forward purchase of approximately Japanese Yen 100 million and Singapore dollars 16,478,650 for U.S. dollars, at an average rate of Japanese Yen 122.12 per U.S. dollar and Singapore dollar 1.41 per U.S. dollar, respectively, for the purpose of hedging accounts payable and accrued liabilities.

As at March 31, 1997, the Company was committed to the construction of an Aframax vessel for a cost of $44.5 million, scheduled for delivery in June 1997. At March 31, 1997, payments of $8.9 million had been made towards this commitment and a $35.6 million long-term financing arrangement exists for the remaining unpaid cost of this vessel.

10. OTHER INCOME

	Year Ended March 31, 1997	Year Ended March 31, 1996	Year Ended March 31, 1995
Gain on disposition of assets	**$**	$ 8,784	$ 18,245
Gain (loss) on available-for-sale securities		55	(4,303)
Equity in results of 50% owned company	**2,696**	1,139	(2,089)
Foreign currency exchange gain (loss)	**(226)**	(665)	991
Miscellaneous – net	**354**	(83)	(5)
	$ 2,824	$ 9,230	$ 12,839

For the year ended March 31, 1997, equity in results of the 50% owned company includes a $2,732,000 gain on a vessel sale.

Gross realized gains on sales of available-for-sale securities for the years ended March 31, 1996 and 1995 aggregated $1,787,000 and $691,000, respectively. Gross realized losses on sales of available-for-sale securities for the years ended March 31, 1996 and 1995 aggregated $1,732,000 and $4,994,000, respectively.

11. CHANGE IN NON-CASH WORKING CAPITAL ITEMS RELATED TO OPERATING ACTIVITIES

	Year Ended March 31, 1997	Year Ended March 31, 1996	Year Ended March 31, 1995
Accounts receivable	**$ (1,873)**	$ (4,792)	$ 3,585
Prepaid expenses and other assets	**665**	(2,058)	(1,597)
Accounts payable	**4,554**	281	(310)
Accrued liabilities	**2,113**	1,013	(427)
	$ 5,459	$ (5,556)	$ 1,251

12. COMPARATIVE FIGURES

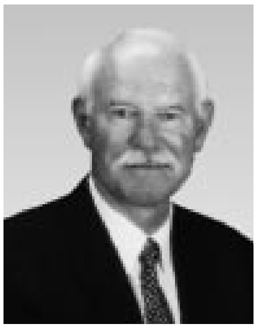
Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period.

Five Year Summary of Financial Information

(US dollars in thousands, except per share and per day data and ratios)

	Fiscal year ended March 31, 1997	Fiscal year ended March 31, 1996	Fiscal year ended March 31, 1995	11 month period ended March 31, 1994	Fiscal year ended April 30, 1993
INCOME STATEMENT DATA:					
Net voyage revenues	**$ 280,212**	$ 245,745	$ 235,009	$ 236,690	$ 228,189
Income from vessel operations	**94,258**	76,279	52,816	60,777	37,310
Income before foreign exchange gain (loss) and discontinued operations	**42,856**	29,735	4,264	25,745	28,559
Net income (loss)	**42,630**	29,070	6,368	30,158	(47,468)
PER SHARE DATA:					
Earnings (loss) per share	**$ 1.52**	$ 1.17	$ 0.35	$ 1.68	$ (2.64)
Weighted average shares outstanding (thousands)	**28,138**	24,837	18,000	18,000	18,000
BALANCE SHEET DATA (at end of period)**:**					
Total assets	**$ 1,372,838**	$ 1,355,301	$ 1,306,474	$ 1,405,147	$1,368,966
Total stockholders' equity	**629,815**	599,395	439,066	433,180	403,022
OTHER FINANCIAL DATA:					
EBITDA	**$ 191,632**	$ 166,233	$ 146,756	$ 151,364	$ 136,123
Net debt to capitalization (%)	**48.0**	51.0	63.3	65.9	67.5
CAPITAL EXPENDITURES:					
Vessel purchases, gross	**$ 65,104**	$ 123,843	$ 7,465	$ 163,509	$ 334,733
Drydocking	**23,124**	11,641	11,917	13,296	16,440
FLEET DATA:					
Average number of ships	**41**	39	42	45	50
Time-charter equivalent (TCE)	**$ 20,356**	$ 18,438	$ 16,552	$ 17,431	$ 13,722
Operating cash flow per ship per day	**11,819**	10,613	8,944	9,133	6,511

Board of Directors



AXEL KARLSHOEJ

Director and

Chairman of the Board

President of Nordic Industries

CAPTAIN JAMES N. HOOD

Director, President and

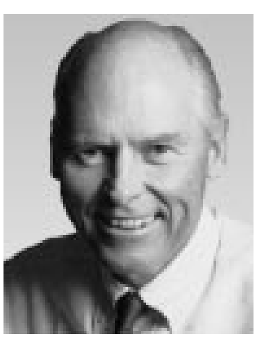
Chief Executive Officer

ARTHUR F. COADY

Director, Executive

Vice President and

General Counsel



MICHAEL D. DINGMAN

Director

Chairman and Chief

Executive Officer of

The Shipston Group

Limited

MORRIS L. FEDER

Director

President of Worldwide

Cargo Inc.

STEVE G.K. HSU

Director

Chairman of

Oak Maritime (H.K.)

Inc., Limited

Not shown

THOMAS KUO-YUEN HSU

Director

Executive Director of

Expedo & Company

(London) Ltd.

STOCK TRANSFER AGENT AND REGISTRAR

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P.O. Box 11258
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STOCK EXCHANGE LISTING

New York Stock Exchange
Symbol: TK
There were 28.3 million shares outstanding at March 31, 1997.

SHARE PRICE INFORMATION

The following table sets forth the New York Stock Exchange high and low prices of the Company's stock for each quarter during fiscal 1997:

Quarter ended	High	Low
June 30, 1996	$28	$25
September 30, 1996	$30⅝	$26½
December 31, 1996	$33⅛	$28⅞
March 31, 1997	$34¼	$26½

INVESTOR RELATIONS

A copy of the Company's Annual Report on Form 20-F is available by writing or calling:
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