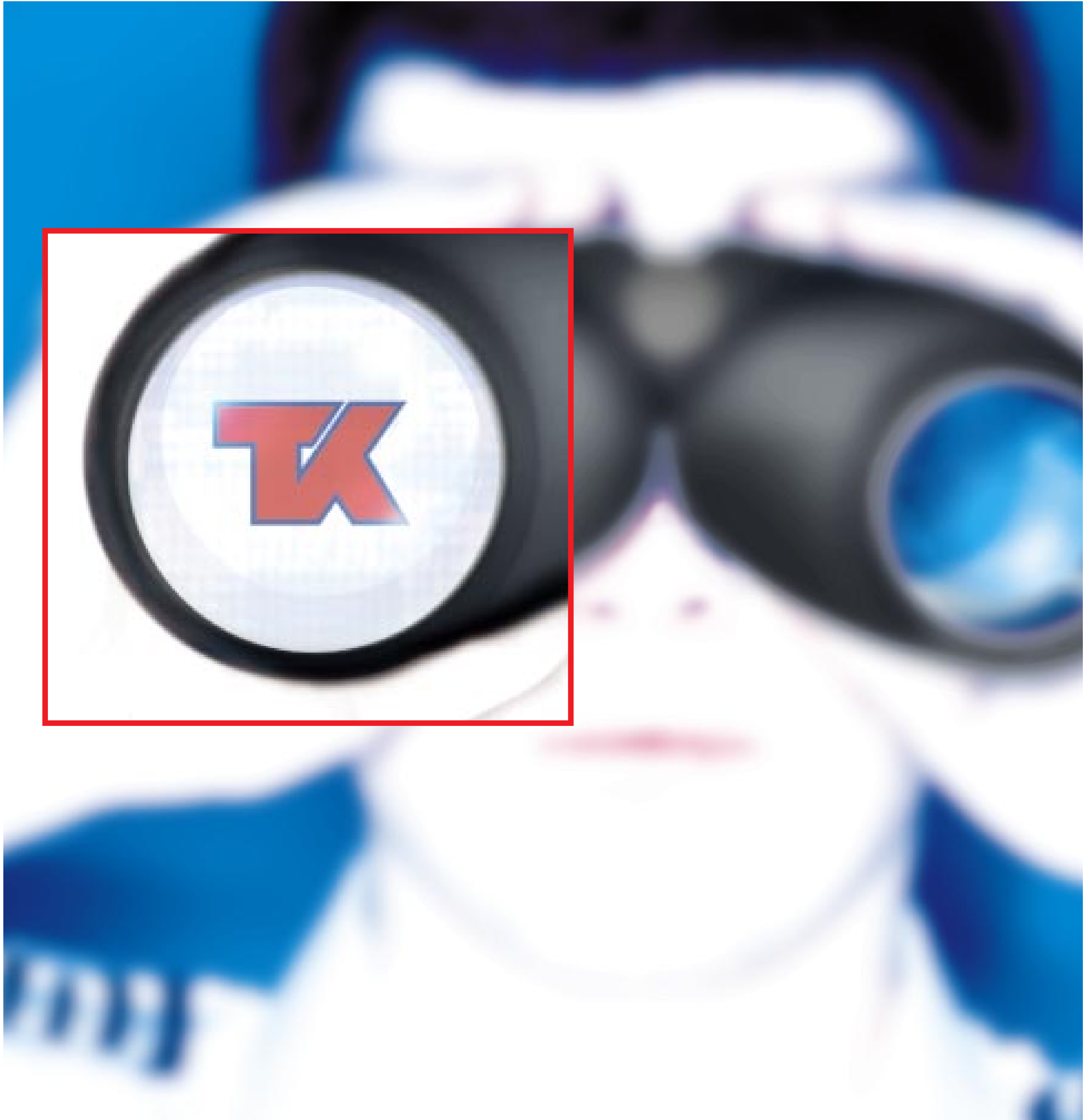


In our view

Teekay Shipping Corporation 2001 Annual Report

Financial Highlights

(In thousands of U.S. dollars, except per share and per day data, or as otherwise indicated.)	Year Ended December 31, 2001	Year Ended December 31, 2000
Income Statement Data		
Net voyage revenues	**$ 789,494**	$ 644,269
Net income	**336,518**	270,020
Balance Sheet Data		
Total assets	**$2,467,781**	$1,974,099
Total stockholders' equity	**1,398,200**	1,098,512
Per Share Data		
Fully diluted earnings per share	**$ 8.31**	$ 6.86
Weighted average shares outstanding -diluted (thousands)	**40,488**	39,368
Other Financial Data		
EBITDA	**$ 539,324**	$ 451,066
Net debt to capitalization (%)	**34.3**	34.3
Capital expenditures:		
Vessel purchases, gross*	**544,737**	43,512
Drydocking	**20,064**	11,941
Total fleet operating cash flow per ship per day	**17,682**	16,687

**Includes assets from acquisitions.*

Teekay's common stock is listed on the New York Stock Exchange where it trades under the symbol "TK".

Contents:

Chairman's Message 10
CEO's Report 12
Market Review 15
Fleet Profile 18
Financial Review 20
Corporate Information 41
Board of Directors 41

Some see a commodity.

We see a brand.

In an industry of often nameless shipowners and undifferentiated service providers, Teekay Shipping Corporation is a recognized symbol of quality. As the leading provider of international crude oil and petroleum product transportation services through the world's largest fleet of medium-sized oil tankers, Teekay is dedicated to providing our customers with exceptional service around the world. Our name is their guarantee.

Some see people, ships and offices.

We see a

network.

Accessibility for customers is key. A cohesive service approach is our style. With 4,100 employees, 95 ships and 15 offices connected around the world, we are truly a customer-centric organization. Teekay's capabilities reach far and wide, with 30 chartering and business development specialists available 24 hours a day, in Houston, London, Oslo, Singapore, Sydney, Tokyo and Vancouver. The Teekay franchise is supported by a single well-established network. A constant sharing of information allows us to maintain Teekay's standards in every region while still being responsive and flexible. In 2001, we used both technology and traditional means to bring us closer to our customers. We continued to focus on building an information technology infrastructure on our ships and ashore and opened the doors to two new Teekay offices – in Perth and Melbourne, Australia.

"Teekay teams work all around the world. Our successful organizational model has increased our ability to provide fast, seamless customer service."

Some see a downturn.

We see a managed

cycle.

In an industry influenced by the tides of supply and demand, a strong balance sheet and astute cycle management are critical to a tanker company's success. We have used market downturns to build our fleet and position ourselves for the eventual upswing. We are in the strongest financial position in the history of the company and through recent transactions have further stabilized our foundation to withstand periods of low tanker rates. Take, for instance, the acquisition of Ugland Nordic Shipping in 2001 and the long-term time charter contract with Tosco Corporation (now Phillips Petroleum Company) for five new vessels. These two transactions alone are estimated to generate annual revenues of approximately US $180 million, at fixed rates which are not subject to the swings of the spot tanker market. Teekay has a strong global operation with excellent cash flow and liquidity, enabling us to immediately respond to opportunities as they arise.

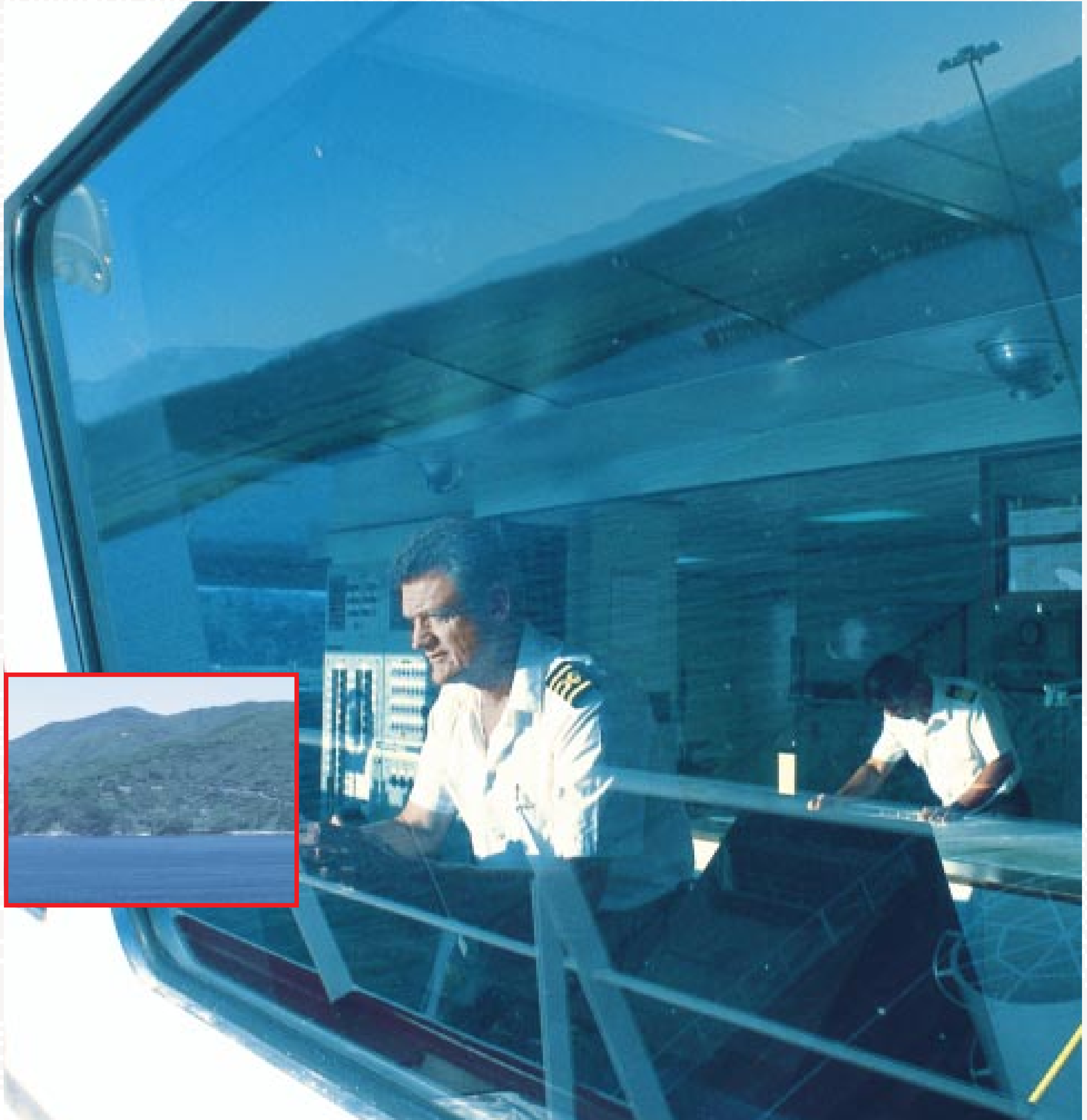
"Teekay is well prepared. With a uniform fleet and the strongest balance sheet in the industry, we are in a position to consider all new opportunities and apply a disciplined approach to growth."

Some see regulatory compliance.

We see a

commitment.

Viewing regulations as restrictions would limit our potential. We have always demonstrated a 'best practices' approach to environmental and personal safety. Our own strict standards make it possible for Teekay to operate in some of the world's most ecologically sensitive waters. In 2001, three of our vessels supported offshore projects in the pristine waters of Australia and the Philippines and our shuttle tankers operated in the strictly-regulated waters of the North Sea. We centralized all policies and procedures through a web-based safety management system. We also rolled out to our fleet a new, comprehensive safety instructor program. As our customers continue to raise their expectations, Teekay's commitment to high environmental and safety standards positions us well for the future.



"We honour the responsibility to set our environmental and safety standards at the highest level. This is our commitment to the industry, the environment and our customers."

Some see a tanker company.

We see an

innovator.

As customers' needs change and new opportunities arise, they welcome suppliers who provide creative solutions and develop innovative partnerships. Teekay did just that in 2001. We expanded our service offerings with the establishment of Australia-based Teekay Marine, a joint venture company formed with an existing customer. We are also enhancing our fleet with four new Aframax tankers through an innovative commercial and technical management arrangement with an independent shipowner. In another interesting development, Teekay filed a patent, in all shipbuilding countries, for a ballast water exchange method that promotes a natural exchange of ballast water at sea that is safe, energy efficient and environmentally friendly.

"Our customers want more than the basics. They demand operational excellence. They expect us to demonstrate an inherent responsibility for continual improvement as well as a pioneer’s passion for innovation."

Chairman's Message to Shareholders

I am very pleased to report that Teekay had another outstanding year in 2001. Our gain in net worth during the year was US $300 million, an increase of 27 per cent. But of equal importance were the steps we took to continue Teekay's growth and to prepare ourselves for the weaker tanker market which we are now experiencing.

Our primary business is the transportation of oil and petroleum products in tankers. This has been a deeply cyclical business for the past 100 years and there is little evidence that it is about to change. Our challenge continues to be the careful management of our balance sheet and our resources to ensure financial strength through all phases of this cycle, and to continue to build shareholder value by achieving a superior return on our capital employed over the course of the cycle. During 2001 we took a number of important steps to support this strategy.

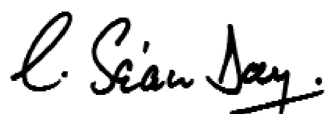
Our acquisition of Ugland Nordic Shipping (UNS) has added modern, very sophisticated shuttle tankers to our fleet. UNS' specialized vessels have long-term charter coverage, providing consistent cash flow throughout the cycle, and complementing our more volatile spot market earnings. Although UNS operates as a separate wholly owned subsidiary, it maintains the same intense customer focus as we do in our core conventional tanker business. It has also allowed us to expand our portfolio of value-added services to our customers.

In a cyclical industry, acquisitions that are not made are sometimes as important as those that are completed. Consistent with our belief that asset prices were close to cyclical high levels, we did not order or purchase any vessels during 2001 other than eight newbuildings that are tied to long-term contracts. The recent weakening in shipyard and second-hand prices validates this strategy.

A weak global economy and OPEC production cuts have served to depress tanker rates in early 2002. We are well prepared for this cyclical downturn. Our conservative capital structure and undrawn credit facilities will allow us to pursue attractive acquisitions this year.

We have an unwavering commitment to operational excellence and customer service. We continue to invest in systems and staff to differentiate ourselves from our competitors. Safety and protection of the environment are core values that we will not compromise under any circumstances. Our 4,100 employees, under the leadership of our President and CEO Bjorn Moller, work long hours to achieve these goals. Our seafarers spend long periods away from their homes and families. I would like to thank them all for a job very well done in 2001.

We continue to be very grateful for the loyal support of our customers and shareholders.



C. Sean Day
Chairman of the Board of Directors

CEO's Report to Shareholders

The tanker market over the past two years has vividly demonstrated the cyclical nature of our industry. In 2000, a weak market developed into the strongest market in nearly three decades, driven by soaring tanker demand. This strength carried over into 2001, making it another excellent year for the industry overall, yet by the end of the year, tanker rates had fallen off considerably, again driven by changes in demand.

Companies operating in such deeply cyclical industries typically either sacrifice upside potential in order to hedge their downside risk, or passively ride the cycles.

In 2001, Teekay leveraged its unique position and strength to obtain a portfolio of fixed-rate contracts as a hedge against the downside, yet at the same time, retained the upside in our spot tanker fleet. Our large spot trading fleet benefited from the strong freight market, resulting in record earnings for our Company. With our eyes firmly on the horizon, we committed to invest more than US $1 billion in new, profitable, long-term, fixed rate business, increasing our future financial stability while preserving our operating leverage.

Our long-term focus contrasts sharply with the approach taken by many in our industry. In a typical industry response to a strong market, the speculative tanker order book grew in 2001, even as newbuilding prices ran 25 per cent above their cyclical low point in 1999. We maintained our investment discipline by not acquiring any speculative assets during this period. Instead, we applied the US $520 million in cash flow generated by our operations towards repayment of debt, bringing our net debt to a new low of 34.3 per cent of total capitalization, and towards investment in assets with profitable employment stretching beyond the tanker cycle. We made two such major investments in 2001.

Our acquisition of Ugland Nordic Shipping (UNS), the world's largest owner of sophisticated shuttle tankers, gave us a 25 per cent share in a niche market characterized by high barriers to entry and long-term contracts. UNS' business is to serve

We have a clear focus.

offshore oil installations in harsh weather and environmentally sensitive waters, and provides a good fit with Teekay's expertise in high quality, operationally intensive trades. The combination of UNS' market position and technological know-how, with Teekay's global reach and financial strength, has exciting potential.

We achieved another franchise milestone in 2001 when Tosco Corporation, now part of Phillips Petroleum, selected our Company for a five-ship, US $250 million transaction involving 12-year charters to Tosco – the largest transportation contract awarded in our industry in some time. Our proven record of quality and customer service, our scale and cost advantages, and our commercial flexibility in meeting Tosco's specific requirements, were key factors in securing this contract.

(cont. pg. 14)

"Successful companies continually examine, analyze and rethink themselves. They assess how others see them and ensure that perception accurately reflects reality."

We have maintained our focus on our core business of operating a homogenous and flexible fleet of medium-sized oil tankers in the spot market. We are the world leader in this business by a wide margin. We have built significant market share on environmentally sensitive routes where we serve large, quality-conscious oil company customers. Our strategy in this business results in above-average capacity utilization and revenues.

Through cost management and disciplined timing of fleet growth, we have reduced the Aframax day-rate at which Teekay achieves net income break-even from US $16,100 in 1995 to approximately US $13,000 today, raising our profitability under any freight market scenario. Our large spot fleet provides considerable operating leverage: every US $1,000 increase in day-rates raises our annual earnings per share by roughly US $0.57.

Our high fleet utilization, low break-even rate and high operating leverage combined to produce record net income of US $336.5 million in 2001, or US $8.31 per share, compared to US $270.0 million, or US $6.86 per share in 2000. Over the past two years alone we have delivered cash earnings of US $21.62 per share. Return on invested capital in 2001 was 18.9 per cent.

Going forward, we will continue to focus on our two complementary growth strategies. Leveraging our competitive strengths, we will seek to grow our portfolio of long-term business, which is already expected to deliver up to 45 per cent of our projected income from vessel operations by 2004, assuming an average market.

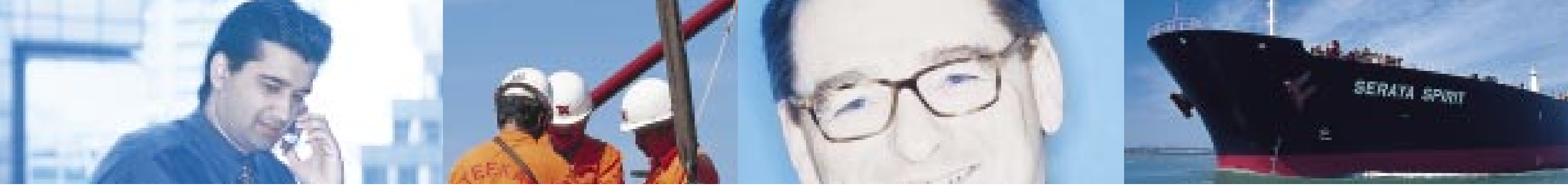
We also intend to opportunistically grow our spot market fleet. Having entered a downturn in late 2001, we may see attractively priced opportunities over the next year or two.

Teekay's record in this challenging industry speaks for itself. Since becoming publicly listed in 1995, the average return on shareholders' equity has been 12.9 per cent. Book value per share has risen from US $21.19 to US $35.35, while maintaining a substantial dividend payout. Our earning power, our balance sheet and our access to capital give us a strong position from which to lead the consolidation of our highly fragmented industry.

Last year we invested in people and systems as we continued building the Teekay brand. This will continue in the future. I am grateful for the efforts of our 4,100 employees this past year. Working in 15 offices and onboard 95 ships, they make up a unique network, which strives to deliver flawless service to our customers and, in turn, create value for our shareholders.

We will continue to spend a lot of time examining, analyzing and rethinking our business, looking for innovation, continuous improvement and growth. We believe this is the hallmark of truly successful companies. In our view, we are building Teekay's position as the finest tanker company in the world!

Bjorn Moller
President and CEO



Market Review

Introduction

The highest tanker freight market experienced since the 1970s continued into 2001. Worldwide average TCE rates for Aframax tankers averaged US $30,400 per day, against a 10-year average of US $18,535 per day. However, the year was a story of two halves, the first characterized by firm oil demand, high tanker capacity utilization and high earnings, while the second was dominated by contracting oil demand, political uncertainty and weak tanker demand, resulting in a steep decline in freight rates. Average Aframax freight rates went from US $45,000 per day in the first quarter to US $22,300 per day in the fourth quarter.

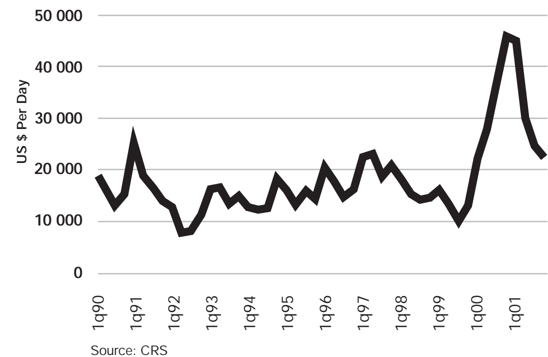
Despite high average freight rates for the year, the decline in the second half of 2001 and the high volume of older tonnage in the existing fleet caused a sharp increase in scrapping, and tanker supply experienced the largest net reduction seen in over a decade.

Tanker Demand

Global oil consumption rose 1.2 per cent in the first half of 2001 against year-earlier levels. However, the weakening world economy and the lag effect of high oil prices experienced in 2000 took their toll in the second half and a 0.9 per cent decline was observed. Overall for 2001, global oil demand remained virtually unchanged; its worst performance since 1985.

While global oil demand is the long-term driver of tanker demand, oil production is the more immediate-term driver. With global oil inventories at

Worldwide Aframax TCE Rates



The highest tanker freight market experienced since the 1970s continued into 2001.

the mid-point of historical averages, the imbalance between oil demand and production led to declining crude oil prices during the year. OPEC responded quickly to declining prices with a series of production cutbacks that totaled 3.5-million barrel per day (mb/d): 1.5 mb/d announced in January, 1.0 mb/d in March and 1.0 mb/d in July. The majority of these reductions were from long-haul Middle East Gulf producers. OPEC crude output declined by 0.6 mb/d from the 2000 average level. Meanwhile, two sustained years of historically high oil prices spurred non-OPEC production, which rose by 0.7 mb/d, with most of this gain from Former Soviet Union producers. World oil production remained virtually unchanged at 77.0 mb/d in 2001.

The shift from long-haul supplies to short-haul

(cont. pg.16)

sources had a negative impact on tanker tonne-mile demand, which declined significantly during 2001.

According to IEA forecasts, growth in world oil consumption is expected to remain negative in the first half of 2002, falling 0.4 per cent before an assumed increase of 1.7 per cent in the second half based on a revival in the global economy. Overall for the year oil demand is projected to grow 0.7 per cent.

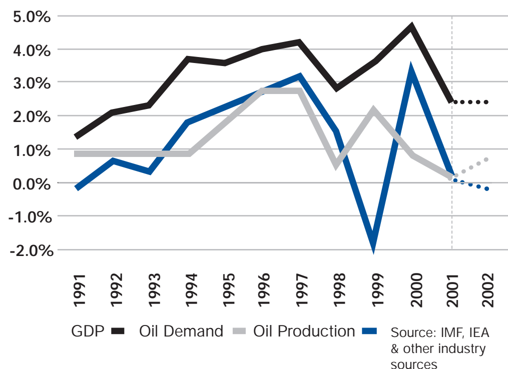
In response to the weakness expected for the first half of 2002, OPEC, supported by a 0.5 mb/d reduction from certain non-OPEC producers, announced additional cuts of 1.5 mb/d, further eroding near-term tanker demand. In January 2002, OPEC crude oil production fell to levels last seen in 1995. Meanwhile, IEA forecasts suggest a 0.9 mb/d rise in non-OPEC production during 2002.

While some of the demand increase forecast for the second half of 2002 will be met by non-OPEC production, the IEA's "call on OPEC" is projected to rise by over 2.0 mb/d in the fourth quarter, compared to second quarter levels or 1.2 mb/d year-on-year. Such developments would result in a significant recovery in tanker demand.

Tanker Supply

New tanker deliveries remained relatively low during 2001, totalling 14.3 million dead weight tonnes (mdwt), compared to over 20.0 mdwt in each of the two preceding years. The delivery schedule was outpaced by 16.5 mdwt of scrapping, while losses, conversions and miscellaneous removals accounted for a further 4.0 mdwt. Overall, the tanker fleet

Annual Change in World GDP, Oil Demand and Oil Production

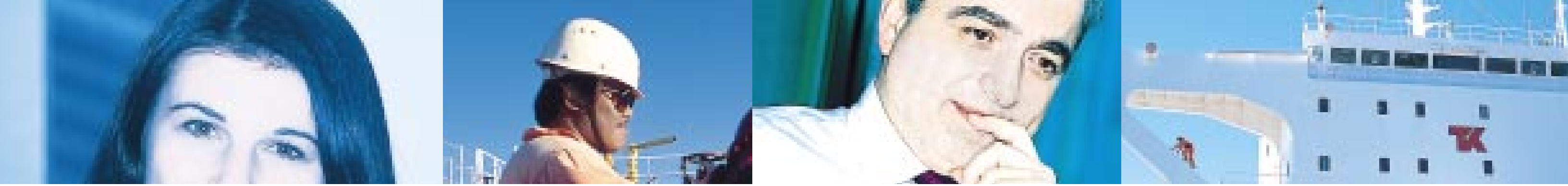


Left: Global oil demand is driven by economic growth. Demand remained virtually unchanged in 2001.

declined by 6.2 mdwt, the largest net reduction in tanker supply in over a decade. The high level of scrapping was the result of a high proportion of old tankers in the world fleet that face technical obsolescence, customer discrimination and near-term regulatory phase out, as evidenced by the high rate of scrapping which occurred even in the strong freight markets of 2000 and 2001.

In the Aframax sector, there were 14 tankers delivered in 2001, the lowest total since 1995, while 24 were sold for scrap and a further two were converted for use in the offshore sector. The fleet declined by 1.9 per cent, the first such decline in over a decade.

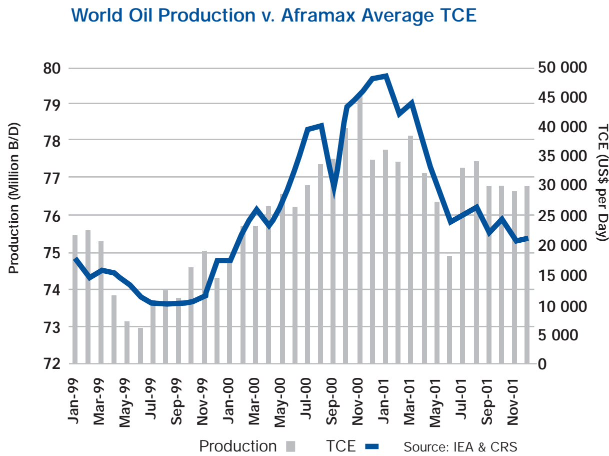
Last year was very active for tanker ordering, as 27.7 mdwt was contracted during the year. The tanker order book rose to 63.7 mdwt, compared to 52.1 mdwt at the end of 2000. Seventy new



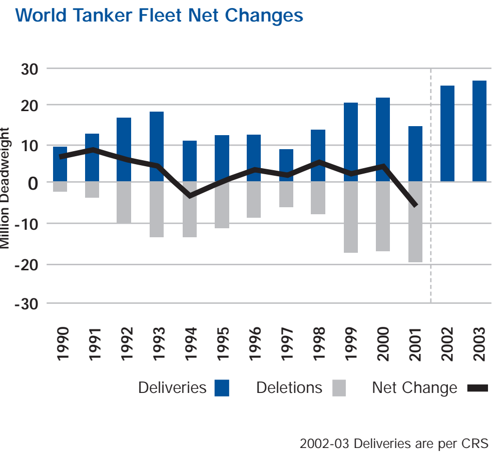
Right: While global oil demand is the long-term driver of tanker demand, oil production is the more immediate-term driver. World oil production declined through 2001.

Far Right: The world tanker fleet declined by 6.2 mdwt, the largest net reduction in tanker supply in over a decade.

World Oil Production v. Aframax Average TCE



World Tanker Fleet Net Changes



2002-03 Deliveries are per CRS

Aframaxes were ordered in 2001, with the order book rising to 120 vessels by the end of the year, compared to 68 tankers at the end of 2000.

As a result of active ordering in recent years, tanker deliveries are expected to run at a relatively high level during the next two years, with 25.8 mdwt and 26.1 mdwt scheduled for delivery in 2002 and 2003, respectively. A large proportion of old tankers in the existing fleet is creating the potential for a significant increase in scrapping during the same period, particularly during periods of low tanker freight rates. By the end of 2002, 45.2 mdwt of the existing fleet will be 25-years-old or older, the age at which tankers are typically scrapped. By the end of 2003 an additional 5.7 mdwt will reach their 25th year.

Scheduled deliveries for Aframax tankers total 43 ships in 2002 and 60 in 2003. By the end of 2003, 61 Aframaxes will be 25-years-old or older, compared to expected deliveries of 103 ships. However, a total of 182 Aframax tankers will become 20-years-old or older during the same period, which is a significantly higher proportion than other crude oil tanker segments.

The newbuilding order book is more or less fixed for the next two years, as shipyards are full. Therefore, the development of the tanker market will depend on the balance between the amount of supply leaving the fleet through scrapping and the amount of tanker demand growth driven by the recovery in the world economy.

Some see 95 ships.

We see a uniform fleet.

Aframax Tankers

	Total DWT
Onomichi Class 15 Ships	1,497,900
Hyundai Class 11 Ships	1,108,900
Imabari Class 11 Ships	1,084,700
Samsung Class 5 Ships	566,100
Mitsubishi Class 5 Ships	446,000
Other Aframax 7 Ships	693,700
In-Chartered Vessels 5 Ships	515,800
Total Aframax Tonnage 59 Ships	5,913,100

	Total DWT
Shuttle Tankers 14 Ships	1,368,400
Oil/Bulk/Ore (OBO) Vessels 8 Ships	625,900
Other Size Tankers 3 Ships	350,600
Floating Storage and Off-take (FSO) Vessels 3 Ships	340,400
Newbuildings To Be Delivered 8 Ships	1,011,500
Grand Total Tonnage 95 Ships	9,609,900 as of March 1, 2002

** Visit the Investor Centre at www.teekay.com for updates to and more details about Teekay's fleet.*

Teekay Offices

Vancouver Houston Nassau Glasgow London Sandefjord Oslo Riga Mumbai Singapore Perth Manila Tokyo Melbourne Sydney

Atlantic Routes Pacific Routes

Shipping Routes

Financial Review

Management's Discussion & Analysis 21

Auditor's Report 27

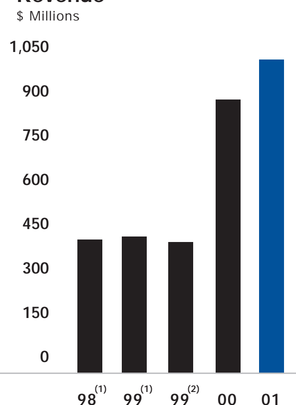
Consolidated Statements of Income 28

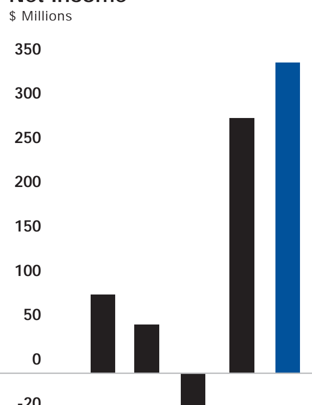
Consolidated Balance Sheets 29

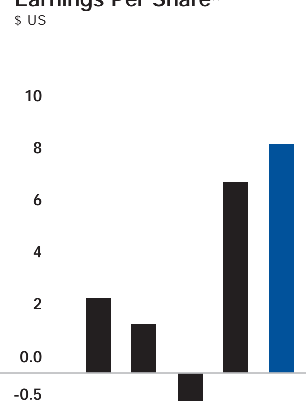
Consolidated Statements of Cash Flows 30

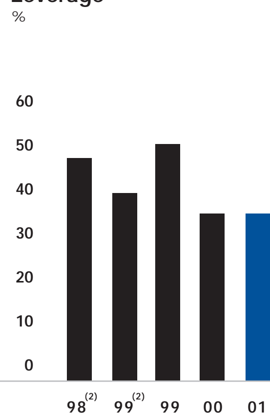
Consolidated Statements of Changes in Stockholders' Equity 31

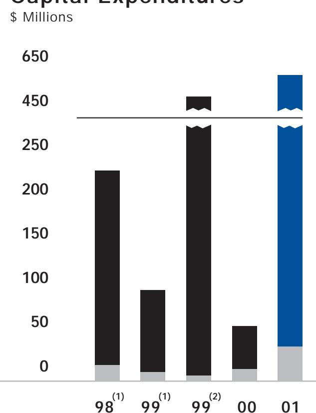
Notes to the Consolidated Financial Statements 32

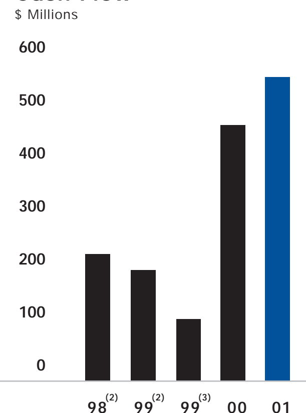












The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this report. Except for the historical information, the following discussion contains forward-looking statements that involve risks and uncertainties, such as the Company's objectives, expectations and intentions. When used in this report, the words "expects," "intends," "plans," "believes," "anticipates," "estimates" and variations of such words and similar expressions are intended to identify forward-looking statements. Actual results could differ materially from results that may be anticipated by such forward-looking statements and discussed elsewhere in this report. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made in this report and in other of the Company's filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

General

Teekay is a leading provider of international crude oil and petroleum product transportation services to major oil companies, major oil traders and government agencies worldwide. As at December 31, 2001, the Company's fleet consisted of 96 vessels (including eight newbuildings on order, six vessels time-chartered-in and three vessels owned by joint ventures), for a total cargo-carrying capacity of approximately 9.7 million tonnes.

During the year ended December 31, 2001, approximately 57% of the Company's net voyage revenues were 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 contracts of affreightment ("COAs"), whereby the Company carries an agreed quantity of cargo for a customer over a specified trade route within a given period of time. In the year ended December 31, 2001, approximately 21% of net voyage revenues were generated by time charters and COAs priced on a spot market basis. In the aggregate, approximately 78% of the Company's net voyage revenues during the year ended December 31, 2001 were derived from spot voyages or time charters and COAs priced on a spot market basis, with the remaining 22% being derived from fixed-rate time-charters and COAs. This dependence on the spot market, which is within industry norms, contributes to the volatility of the Company's revenues, cash flow from operations, and net income.

Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. In addition, tanker markets have historically 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 weather patterns that tend to disrupt vessel scheduling.

Acquisition of Ugland Nordic Shipping ASA

As of May 28, 2001, the Company had purchased 100% of the issued and outstanding shares of Ugland Nordic Shipping ASA ("UNS") (9% of which was purchased in fiscal 2000 and the remaining 91% was purchased in fiscal 2001), for approximately $222.8 million in cash.

UNS is the world's largest owner of shuttle tankers, controlling a modern fleet of 18 vessels (including three new buildings on order) (the "UNS Fleet") that engage in the transportation of oil from offshore production platforms to onshore storage and refinery facilities. The UNS Fleet has an average age of approximately 9.0 years, excluding the three newbuildings on order, and operates primarily in the North Sea under fixed-rate long-term contracts. In addition, as of December 31, 2001, UNS owned approximately 11.9% of the publicly-traded company Nordic American Tankers Shipping Ltd. (AMEX: NAT) ("NAT"), the owner of three Suezmax tankers on a long-term contract to BP Shipping.

For the year ended December 31, 2000, UNS earned net voyage revenues of $69.1 million, resulting in income from vessel operations of $23.8 million and net income of $15.4 million, applying accounting principles generally accepted in the United States. The operating results of UNS have been consolidated in the Company's financial statements commencing March 6, 2001, the date that the Company acquired a majority interest in UNS. Minority interest expense, which is included in other income (loss), has been recorded to reflect the minority shareholders' share of UNS' net income for the period from March 6, 2001 to May 28, 2001, when the Company acquired the remaining shares in UNS.

Since the majority of UNS' revenues are derived from fixed-rate long-term contracts, the percentage of the Company's fleet that is dependent on the spot tanker

market has declined. Giving effect to the acquisition of UNS as if it had occurred on January 1, 2001, the Company would have derived 23% of its pro forma net voyage revenues from fixed-rate time-charters and COAs during the year ended December 31, 2001, compared to 13% when excluding UNS.

Acquisition of Bona Shipholding Ltd.

On June 11, 1999, the Company acquired Bona Shipholding Ltd. ("Bona") for aggregate consideration (including transaction expenses of $19.0 million) of $450.3 million, consisting of $39.9 million in cash, $294.0 million of assumed debt (net of cash acquired of $91.7 million) and the balance of $97.4 million in shares of the Company's common stock. Bona was the world's third largest operator of medium-sized tankers, controlling a fleet of vessels consisting of 15 Aframax tankers, eight oil/bulk/ore carriers and, through a joint venture, 50% interests in one additional Aframax tanker and two Suezmax tankers. Bona engaged in the transportation of oil, oil products, and dry bulk commodities, primarily in the Atlantic region.

The acquisition of Bona has been accounted for using the purchase method of accounting. Bona's operating results are reflected in the Company's financial statements commencing June 11, 1999.

All oil/bulk/ore carriers ("O/B/O") owned by Bona have been operated through an O/B/O pool managed by a subsidiary of Bona. Net voyage revenues from the O/B/O pool are currently included on a 100% basis in the Company's consolidated financial statements. Where the Company owns less than 50% of a vessel, the minority participants' share of the O/B/O pool's net voyage revenues is reflected as a time charter hire expense. These O/B/Os have earned lower average "time charter equivalent" (or "TCE") rates than the rest of the Teekay fleet as these vessels command lower rates than modern Aframax tankers under typical market conditions.

Results of Operations

Bulk shipping industry freight rates are commonly measured at the net voyage revenue level in terms of TCE rates, defined as voyage revenues less voyage expenses (excluding commissions), divided by voyage ship-days for the round-trip voyage. Voyage revenues and voyage expenses are a function of the type of charter, either spot market 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.

TCE rates are dependent on oil production levels, oil consumption growth, the number of vessels scrapped, the number of newbuildings delivered and charterers' preference for modern tankers. As a result of the Company's dependence on the tanker spot market, any fluctuations in Aframax TCE rates will impact the Company's revenues and earnings.

Year Ended December 31, 2001 versus Year Ended December 31, 2000

The Company's average fleet size increased 15.3% in the year ended December 31, 2001 compared to the year ended December 31, 2000, primarily due to the acquisition of UNS in March 2001.

Average TCE rates were higher in 2001, compared to 2000, due to increased demand for tankers, primarily arising from increased oil production in the first half of 2001. The Company's average TCE rate increased 12.1% to $28,768 for the year ended December 31, 2001 (excluding the Company's vessels on bareboat charter), from $25,661 for the year ended December 31, 2000. In response to a slowing global economy, a series of OPEC oil production cuts during 2001 have resulted in a reduction in tanker demand and thus a decline in TCE rates in the second half of 2001 and into the first quarter of 2002.

Net voyage revenues were $789.5 million in the year ended December 31, 2001, as compared to $644.3 million in the year ended December 31, 2000, representing a 22.5% increase. This was the result of the increase in fleet size and an increase in the Company's average TCE rate.

Vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lubes, and communication expenses, increased 23.5% to $154.8 million in the year ended December 31, 2001, from $125.4 million in the year ended December 31, 2000, primarily as a result of the increase in fleet size, and higher repairs and maintenance costs.

Time charter hire expense increased 23.3% to $66.0 million in the year ended December 31, 2001, from $53.5 million in the prior year, due primarily to an increase in the average number of vessels time-chartered-in by the Company and an increase in the average TCE rates earned in the O/B/O pool managed by the Company. The

minority participants' share of the O/B/O pool's net voyage revenues, which is reflected as a time-charter expense, was $27.6 million for the year ended December 31, 2001, compared to $26.3 million in the year ended December 31, 2000. The average number of vessels time-chartered-in by the Company, excluding the O/B/Os, was six in the year ended December 31, 2001, compared to five in the prior year.

Depreciation and amortization expense increased 36.1% to $136.3 million in the year ended December 31, 2001, from $100.2 million in the prior year, mainly due to the acquisition of UNS, which resulted in an increase in the average size and average cost base of the Company's owned fleet, and an increase in drydock amortization expense. Depreciation and amortization expense included amortization of drydocking costs of $14.2 million in the year ended December 31, 2001, compared to $9.2 million in the prior year.

General and administrative expenses increased 30.5% to $48.9 million in the year ended December 31, 2001, from $37.5 million in the prior year, primarily as a result of the acquisition of UNS and higher senior management bonuses, which are determined largely by Company financial performance.

Interest expense decreased 11.1% to $66.2 million in the year ended December 31, 2001, from $74.5 million in the prior year. This decrease reflects lower interest rates, partially offset by the additional debt assumed as part of the UNS acquisition.

Interest income decreased 29.4% to $9.2 million in the year ended December 31, 2001, compared to $13.0 million in the prior year, mainly as a result of lower interest rates.

Other income of $10.1 million for the year ended December 31, 2001 comprised of equity income from 50%-owned joint ventures, dividend income from NAT, gain on the disposition of available-for-sale securities, and foreign exchange gains, partially offset by income tax expense and minority interest expense. Equity income from joint ventures included a $10.2 million gain on sale of three 50%-owned vessels. Other income for the year ended December 31, 2000 was $3.9 million, which was comprised mainly of equity income from a 50%-owned joint venture, partially offset by a loss on the disposition of two vessels and income tax expense.

As a result of the foregoing factors, net income rose to $336.5 million in the year ended December 31, 2001, from $270.0 million in the prior year.

Year Ended December 31, 2000 versus Nine Months Ended December 31, 1999

As a result of the Company's change in fiscal year-end from March 31 to December 31, commencing December 31, 1999, the 2000 fiscal year's results are for the 12 month period ended December 31, 2000, while the comparative fiscal period's results are for the nine-month period ended December 31, 1999. Where indicated in the following discussions, percentage change figures reflect comparison to the annualized results for the nine-month period ended December 31, 1999. The Company annualized the results by multiplying its results for the nine-month period by 4/3. The annualized results for the nine-month period ended December 31, 1999 are not necessarily indicative of those for a full fiscal year.

Average Aframax TCE rates increased significantly in 2000, compared to the nine-month period ended December 31, 1999, due to increased demand for modern tankers, arising from increased oil production and discrimination by charterers against older tankers. The Company's average TCE rate increased 81.2% to $25,661 for the year ended December 31, 2000, from $14,165 for the nine-month period ended December 31, 1999.

The results for the nine-month period ended December 31, 1999 include the results of Bona commencing June 11, 1999. On an annualized basis, the Company's average fleet size increased 9.0% in the year ended December 31, 2000, compared to the nine-month period ended December 31, 1999.

Net voyage revenues were $644.3 million in the year ended December 31, 2000, as compared to $248.4 million in the nine-month period ended December 31, 1999, representing a 94.6% increase on an annualized basis from the nine-month period ended December 31, 1999. This is the result of an increase in the average TCE rate earned by the Company's fleet. In addition, as of December 31, 1999, the Company changed its process of estimating net voyage revenues from a load port-to-load port basis to a discharge port-to-discharge port basis, which is consistent with most other shipping companies. This change in voyage estimate resulted in a one-time increase in net voyage revenues of $5.7 million for the nine-month period ended December 31, 1999.

Vessel operating expenses decreased 4.8% on an annualized basis to $125.4 million in the year ended December 31, 2000, from $98.8 million in the nine-month period ended December 31, 1999. This decrease was mainly the result of lower per-day operating expenses

arising from the application of the Company's lower cost structure to the Bona fleet. This decrease was partially offset by the increase in the Company's average fleet size.

Time charter hire expense increased 30.7% on an annualized basis to $53.5 million in the year ended December 31, 2000, from $30.7 million in the nine-month period ended December 31, 1999, due primarily to the inclusion of Bona's operating results, which includes the O/B/O vessels, for only part of the previous fiscal period from June 11, 1999, an increase in the average TCE rates earned in the O/B/O pool, and an increase in the average number of vessels time-chartered-in by the Company. The minority participants' share of the O/B/O pool's net voyage revenues, which is reflected as a time-charter expense, was $26.3 million for the year ended December 31, 2000, compared to $10.5 million in the nine-month period ended December 31, 1999. The average number of vessels time-chartered-in by the Company, excluding the O/B/Os, was five in the year ended December 31, 2000, compared to four in the nine-month period ended December 31, 1999.

Depreciation and amortization expense increased 10.0% on an annualized basis to $100.2 million in the year ended December 31, 2000, from $68.3 million in the nine-month period ended December 31, 1999. This increase primarily reflects the increase in the Company's average fleet size arising from the acquisition of Bona. Depreciation and amortization expense included amortization of dry-docking costs of $9.2 million in the year ended December 31, 2000, compared to $6.3 million in the nine-month period ended December 31, 1999.

General and administrative expenses increased 4.0% on an annualized basis to $37.5 million in the year ended December 31, 2000, from $27.0 million in the nine-month period ended December 31, 1999. This increase was primarily a result of the acquisition of Bona, partially offset by overhead cost savings related to the acquisition.

Interest expense increased 24.2% on an annualized basis to $74.5 million in the year ended December 31, 2000, from $45.0 million in the nine-month period ended December 31, 1999. This increase reflects an increase in interest rates and the additional debt assumed as part of the Bona acquisition.

Interest income increased 67.2% on an annualized basis to $13.0 million in the year ended December 31, 2000 from $5.8 million in the nine-month period ended December 31, 1999, mainly as a result of increased interest rates and higher cash and marketable securities balances.

Other income of $3.9 million in the year ended December 31, 2000 consisted primarily of equity income from a 50%-owned joint venture, partially offset by future income taxes related to the Company's Australian shipowning subsidiaries, and losses on the sale of two vessels. Other loss of $4.0 million in the nine-month period ended December 31, 1999 consisted primarily of future income taxes related to the Company's Australian shipowning subsidiaries and one-time employee and severance-related costs, partially offset by equity income from the 50%-owned joint venture.

As a result of the foregoing factors, net income was $270.0 million in the year ended December 31, 2000, compared to a net loss of $19.6 million in the nine-month period ended December 31, 1999.

Liquidity and Capital Resources

As at December 31, 2001, the Company's total cash and cash equivalents was $174.9 million, compared to $181.3 million as at December 31, 2000, and $220.3 million as at December 31, 1999. The Company's total liquidity, including cash, short-term marketable securities and undrawn long-term borrowings, was $688.2 million as at December 31, 2001, up from $373.1 million as at December 31, 2000, and $237.4 million as at December 31, 1999. The increase in liquidity during the year ended December 31, 2001 was mainly the result of net cash flow from operating activities earned during the year, net proceeds from the issuance of $350.0 million of the Company's unsecured 8.875% Senior Notes due 2011 (the "8.875% Notes"), partially offset by prepayments and scheduled repayments of certain outstanding secured debt (excluding the Revolvers, as defined below), cash used to purchase the UNS shares, and cash used for newbuilding installment payments. In the Company's opinion, working capital is sufficient for the Company's present requirements.

Net cash flow from operating activities increased to $520.2 million in the year ended December 31, 2001, compared to $333.3 million in the year ended December 31, 2000, and $51.5 million in the nine-month period ended December 31, 1999. This primarily reflects the change in average TCE rates during these periods and the increased fleet size as a result of the UNS and Bona acquisitions.

In 2001, the Company applied a portion of its operating cash flow and the net proceeds from the 8.875% Notes toward the repayment of debt. Scheduled debt repayments were $72.0 million during the year ended December 31, 2001, compared to $63.8 million during the year ended December 31, 2000, and $32.3 million during the nine-month period ended December 31, 1999. Debt prepayments during the year ended December 31, 2001 totalled

$751.7 million. Of this, $551.1 million was used to reduce the Company's two long-term revolving credit facilities (the "Revolvers"), $178.5 million was used to reduce several of the Company's term loans, and the remaining $22.1 million was used to repurchase a portion of the Company's 8.32% First Preferred Ship Mortgage Notes (the "8.32% Notes"). Debt prepayments during the year ended December 31, 2000 and nine-month period ended December 31, 1999 totalled $429.9 million and $10.0 million, respectively.

As at December 31, 2001, the Company's total debt was $935.7 million, up from $797.5 million as at December 31, 2000, mainly as the result of the acquisition of UNS, partially offset by dept repayments made during 2001. The Company's Revolvers provided for additional borrowings of up to $508.2 million as at December 31, 2001. The amount available under the Revolvers reduces semi-annually with final balloon reductions in 2006 and 2008. The 8.32% Notes are due February 1, 2008 and are subject to a sinking fund, which will retire $45.0 million principal amount of the 8.32% Notes on each February 1, commencing 2004. The 8.875% Notes are due July 15, 2011. The Company's outstanding term loans reduce in quarterly or semi-annual payments with varying maturities through 2010. The aggregate annual long-term debt principal repayments required to be made subsequent to December 31, 2001 are $51.8 million (2002), $63.6 million (2003), $84.9 million (2004), $109.8 million (2005), and $128.5 million (2006).

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 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, was limited as of December 31, 2001, to $448.0 million. Certain of the loan agreements require a minimum level of free cash be maintained. As at December 31, 2001, this amount was $75.0 million.

The Company manages the impact of interest rate changes on earnings and cash flows through its interest rate structure. For the Revolvers, the interest rate structure is based on LIBOR plus a margin depending on the financial leverage of the Company. Interest payments on the term loans are also based on LIBOR plus a margin. As at December 31, 2001, the interest rate swap agreements effectively change the Company's interest rate exposure on $85.0 million of debt from a floating LIBOR rate to an average fixed rate of 6.40%. The interest rate swap agreements expire between May 2002 and May 2004.

Funding and treasury activities are conducted within corporate policies to minimize borrowing costs and maximize investment returns while maintaining the safety of the funds and appropriate liquidity for Company purposes. Cash and cash equivalents are held primarily in U.S. dollars, with some balances held in Japanese Yen, Singapore Dollars, Canadian Dollars, Australian Dollars, British Pounds and Norwegian Kroner.

The Company is exposed to market risk from foreign currency fluctuations, changes in interest rates, bunker fuel prices, and tanker freight rates. The Company uses forward foreign currency contracts, interest rate swaps, and bunker fuel swap contracts to manage currency, interest rate, and bunker fuel price risk but does not use these financial instruments for trading or speculative purposes. As at December 31, 2001, the Company had $65.5 million in forward foreign currency contracts, which expire between January 2002 and December 2003. The Company is also committed to bunker fuel swap contracts totalling 42,000 metric tonnes with a weighted-average price of $113.54 per tonne, which expire between January 2002 and May 2004. Dividends declared during the year ended December 31, 2001 were $34.1 million, or $0.86 per share.

On September 19, 2001, Teekay announced that its Board of Directors had authorized the repurchase of up to 2,000,000 shares of its Common Stock in the open market. As at December 31, 2001, Teekay had repurchased 512,800 shares of Common Stock at an average price of $27.617 per share.

During the year ended December 31, 2001, the Company incurred capital expenditures for vessels and equipment of $185.0 million. These primarily consisted of $95.0 million for the purchase of four shuttle tankers, $48.0 million for the reimbursement for installments already made on five newbuilding contracts that were assumed by the Company in August 2001, and $22.5 million for shuttle tanker newbuilding installment payments. Cash expenditures for drydocking were $20.1 million in the year ended December 31, 2001 compared to $11.9 million in the year ended December 31, 2000, and $6.6 million in the nine-month period ended December 31, 1999.

As at December 31, 2001, the Company was committed to the construction of three shuttle, three Suezmax and two Aframax tankers scheduled for delivery between December 2002 and December 2003, at a total cost of

approximately $410.8 million. As of December 31, 2001, there have been payments made towards these commitments of $112.8 million and long-term financing arrangements exist for $61.5 million of the unpaid cost of these vessels. It is the Company's intention to finance the remaining unpaid amount of $236.5 million through either debt borrowing or surplus cash balances, or a combination thereof. As of December 31, 2001, the remaining payments required to be made under these newbuilding contracts are as follows: $56.2 million in 2002 and $241.8 million in 2003. Upon delivery, the vessels will be subject to long-term charter contracts, which expire between 2009 and 2015.

The Company and certain subsidiaries of the Company have guaranteed their share of the outstanding mortgage debt in three 50%-owned joint venture companies. As of December 31, 2001, the Company and these subsidiaries have guaranteed $87.8 million of such debt, or 50% of the total $175.6 million in outstanding mortgage debt of the joint venture companies. These joint venture companies own three shuttle tankers.

As part of its growth strategy, the Company will continue to consider strategic opportunities, including the acquisition of additional vessels and expansion into new markets. The Company may choose to pursue such opportunities through internal growth, joint ventures, or business acquisitions. The Company intends to finance any future acquisitions through various sources of capital, including internally generated cash flow, existing credit lines, additional debt borrowings, and the issuance of additional shares of capital stock.

Forward-Looking Statements

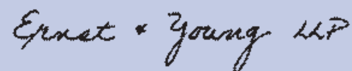
The Company's Annual Report on Form 20-F for the year ended December 31, 2001 and this Annual Report to Shareholders for 2001 contain certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and the Company's operations, performance and financial condition, including, in particular, statements regarding: Aframax TCE rates; tanker supply and demand; supply and demand for oil; future capital expenditures; the Company's growth strategy and measures to implement such strategy; the Company's competitive strengths; the Company's acquisition of UNS and its impact on the Company's operations; the Company's ability to continue to successfully operate UNS; and the future success of the Company. These forward-looking statements, wherever they may occur in this report, are necessarily estimates reflecting the best judgment of senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this report. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Company. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to: changes in production of or demand for oil and petroleum products, either generally or in particular regions; changes in the offshore production of oil; the cyclical nature of the tanker industry and its dependence on oil markets; the supply of tankers available to meet the demand for transportation of petroleum products; charterers' preference for modern tankers; greater or less than anticipated levels of tanker newbuilding orders or greater or less than anticipated rates of tanker scrapping; changes in trading patterns significantly impacting overall tanker tonnage requirements; changes in typical seasonal variations in tanker charter rates; the Company's dependence on spot oil voyages; competitive factors in the markets in which the Company operates; environmental and other regulation, including without limitation, the imposition of freight taxes and income taxes; the Company's potential inability to achieve and manage growth; risks associated with operations outside the United States; the potential inability of the Company to generate internal cash flow, to drawdown on existing credit facilities and obtain additional debt or equity financing to fund capital expenditures; the potential inability of the Company to renew long-term contracts; the exercise by charterers of early termination rights in long-term contracts; and other factors detailed from time to time in the Company's periodic reports filed with the U.S. Securities and Exchange Commission. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

To the Shareholders of TEEKAY SHIPPING CORPORATION

We have audited the accompanying consolidated balance sheets of Teekay Shipping Corporation and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2001 and 2000, and the nine month period ended December 31, 1999. 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 did not audit the financial statements of Ugland Nordic Shipping ASA, a wholly-owned subsidiary, which statements reflect total assets and net voyage revenues constituting 21 percent and 10 percent, respectively of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Ugland Nordic Shipping ASA, is based solely on the report of other auditors.

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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teekay Shipping Corporation and subsidiaries as at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years ended December 31, 2001 and 2000, and the nine month period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.



Vancouver, Canada
February 8, 2002

ERNST & YOUNG LLP
Chartered Accountants

Consolidated Statements of Income

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

	YEAR ENDED DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2000	NINE MONTHS ENDED DECEMBER 31, 1999
NET VOYAGE REVENUES			
Voyage revenues	**$ 1,039,056**	$ 893,226	$ 377,882
Voyage expenses	**249,562**	248,957	129,532
Net voyage revenues	**789,494**	644,269	248,350
OPERATING EXPENSES			
Vessel operating expenses	**154,831**	125,415	98,780
Time charter hire expense	**66,019**	53,547	30,681
Depreciation and amortization	**136,283**	100,153	68,299
General and administrative	**48,898**	37,479	27,018
	406,031	316,594	224,778
INCOME FROM VESSEL OPERATIONS	**383,463**	327,675	23,572
OTHER ITEMS			
Interest expense	**(66,249)**	(74,540)	(44,996)
Interest income	**9,196**	13,021	5,842
Other income (loss) (note 12)	**10,108**	3,864	(4,013)
	(46,945)	(57,655)	(43,167)
Net income (loss)	$ **336,518**	$ 270,020	$ (19,595)
Earnings (loss) per common share (note 10)			
• Basic	$ **8.48**	$ 7.02	$ (0.54)
• Diluted	$ **8.31**	$ 6.86	$ (0.54)

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

(in thousands of U.S. dollars)

	As at December 31, 2001	As at December 31, 2000
ASSETS		
Current		
Cash and cash equivalents (note 7)	**$ 174,950**	$ 181,300
Marketable securities (note 5)	**5,028**	8,081
Restricted cash (note 7)	**7,833**	—
Accounts receivable	**57,519**	80,158
Prepaid expenses and other assets	**22,139**	25,956
Total current assets	**267,469**	295,495
Marketable securities (note 5)	**16,026**	33,742
Vessels and equipment (note 7)		
At cost, less accumulated depreciation of $801,985 (December 31, 2000 - $680,756)	**1,925,844**	1,607,716
Advances on newbuilding contracts (note 14)	**117,254**	—
Total vessels and equipment	**2,043,098**	1,607,716
Investment in joint ventures	**27,352**	20,474
Other assets	**26,757**	16,672
Goodwill (note 1)	**87,079**	—
	$2,467,781	$1,974,099
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable	**$ 24,484**	$ 22,084
Accrued liabilities (note 6)	**51,011**	44,081
Current portion of long-term debt (note 7)	**51,830**	72,170
Total current liabilities	**127,325**	138,335
Long-term debt (note 7)	**883,872**	725,314
Other long-term liabilities (note 1)	**39,407**	7,368
Total liabilities	**1,050,604**	871,017
Minority interest	**18,977**	4,570
Stockholders' equity		
Capital stock (note 10)	**467,341**	452,808
Retained earnings	**935,660**	641,149
Accumulated other comprehensive (loss) income	**(4,801)**	4,555
Total stockholders' equity	**1,398,200**	1,098,512
	$2,467,781	$1,974,099
Commitments and contingencies (notes 8, 13 and 14)		

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

Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	YEAR ENDED DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2000	NINE MONTHS ENDED DECEMBER 31, 1999
Cash and cash equivalents provided by (used for)			
OPERATING ACTIVITIES			
Net income (loss)	**$ 336,518**	$ 270,020	$ (19,595)
Non-cash items:			
Depreciation and amortization	**136,283**	100,153	68,299
Loss on disposition of vessels and equipment	**—**	1,004	—
Gain on disposition of available-for-sale securities	**(758)**	—	—
Equity income (net of dividends received: December 31, 2001 - $33,514; December 31, 2000 - $8,474; December 31, 1999 - $Nil)	**16,190**	(1,072)	(721)
Future income taxes	**6,963**	999	1,500
Other – net	**(3,243)**	(1,173)	1,134
Change in non-cash working capital items related to operating activities (note 15)	**28,197**	(36,676)	896
Net cash flow from operating activities	**520,150**	333,255	51,513
FINANCING ACTIVITIES			
Net proceeds from long-term debt	**688,381**	206,000	100,000
Scheduled repayments of long-term debt	**(72,026)**	(63,757)	(32,252)
Prepayments of long-term debt	**(751,738)**	(429,926)	(10,000)
Increase in restricted cash	**(7,833)**	—	—
Proceeds from issuance of Common Stock	**20,584**	24,843	—
Repurchase of Common Stock	**(14,162)**	—	—
Cash dividends paid	**(34,094)**	(32,973)	(23,150)
Other	**—**	2,970	—
Net cash flow from financing activities	**(170,888)**	(292,843)	34,598
INVESTING ACTIVITIES			
Expenditures for vessels and equipment	**(184,983)**	(43,512)	(23,313)
Expenditures for drydocking	**(20,064)**	(11,941)	(6,598)
Proceeds from disposition of assets	**—**	9,713	—
Expenditure for the purchase of Ugland Nordic Shipping ASA (net of cash acquired of $26,605) (note 3)	**(176,453)**	(13,114)	—
Acquisition costs related to purchase of Ugland Nordic Shipping ASA (note 3)	**(5,067)**	—	—
Net cash acquired through purchase of Bona Shipholding Ltd. (note 4)	**—**	—	51,774
Acquisition costs related to purchase of Bona Shipholding Ltd. (note 4)	**(20)**	(2,685)	(13,806)
Proceeds from disposition of available-for-sale securities	**35,975**	—	13,724
Purchases of available-for-sale securities	**(5,000)**	(17,900)	(6,000)
Net cash flow from investing activities	**(355,612)**	(79,439)	15,781
(Decrease) increase in cash and cash equivalents	**(6,350)**	(39,027)	101,892
Cash and cash equivalents, beginning of the period	**181,300**	220,327	118,435
Cash and cash equivalents, end of the period	**$ 174,950**	$ 181,300	$ 220,327

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

(in thousands of U.S. dollars)

	Thousands of Common Shares	Common Stock	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Compre-hensive Income (Loss)	Total Stockholders' Equity
Balance as at March 31, 1999	31,648	$330,493	$446,897	$ —		$777,390
Net income (loss)			(19,595)		(19,595)	(19,595)
Other comprehensive income					—	
Comprehensive income (loss)					(19,595)	
Dividends declared			(23,172)			(23,172)
June 11, 1999 common stock issued on acquisition of Bona Shipholding Ltd. (note 4)	6,415	97,422				97,422
Reinvested dividends	1	22				22
Balance as at December 31, 1999	38,064	427,937	404,130	—		832,067
Net income			270,020		270,020	270,020
Other comprehensive income:						
Unrealized gain on available-for-sale securities				4,555	4,555	4,555
Comprehensive income					274,575	
Dividends declared			(33,001)			(33,001)
Reinvested dividends	1	28				28
Exercise of stock options	1,080	24,843				24,843
Balance as at December 31, 2000	39,145	452,808	641,149	4,555		1,098,512
Net income			336,518		336,518	336,518
Other comprehensive income:						
Unrealized loss on available-for-sale securities				(6,636)	(6,636)	(6,636)
Reclassification adjustment for gain on available-for-sale securities included in net income				(3,627)	(3,627)	(3,627)
Cumulative effect of accounting change (note 13)				4,155	4,155	4,155
Unrealized loss on derivative instruments (note 13)				(2,274)	(2,274)	(2,274)
Reclassification adjustment for gain on derivative instruments (note 13)				(974)	(974)	(974)
Comprehensive income					327,162	
Adjustment for equity income on step acquisition (note 3)			198			198
Dividends declared			(34,102)			(34,102)
Reinvested dividends	1	8				8
Exercise of stock options	917	20,584				20,584
Repurchase of Common Stock	(513)	(6,059)	(8,103)			(14,162)
Balance as at December 31, 2001	39,550	$467,341	$935,660	$(4,801)		$1,398,200

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

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

1. Summary of Significant Accounting Policies

Basis of presentation The consolidated financial statements have been 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 the Republic of the Marshall Islands, and its wholly owned or controlled subsidiaries (the "Company"). Significant intercompany items and transactions have been eliminated upon consolidation.

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

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

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.

Change in fiscal year end The Company changed its fiscal year end from March 31 to December 31, effective December 31, 1999. The following is a summary of selected financial information for the comparative 12 month periods ended December 31, 2001, 2000 and 1999.

	TWELVE MONTHS ENDED DECEMBER 31, 2001	TWELVE MONTHS ENDED DECEMBER 31, 2000	TWELVE MONTHS ENDED DECEMBER 31, 1999 (unaudited)
Results of Operations			
Net voyage revenues	**$ 789,494**	$ 644,269	$ 318,348
Income from vessel operations	**383,463**	327,675	34,189
Net income (loss)	**336,518**	270,020	(17,723)
Net income (loss) per common share			
• Basic	**8.48**	7.02	(0.50)
• Diluted	**8.31**	6.86	(0.50)
Cash Flows			
Net cash flow from operating activities	**520,150**	333,255	71,633
Net cash flow from financing activities	**(170,888)**	(292,843)	76,948
Net cash flow from investing activities	**(355,612)**	(79,439)	5,613

Operating revenues and expenses Voyage revenues and expenses are recognized on the percentage of completion method of accounting. Effective December 31, 1999 the Company refined its estimation process from a load-to-load basis to a discharge-to-discharge basis under the percentage of completion method to more precisely reflect net voyage revenues. This refinement in accounting estimate resulted in a one-time increase in net voyage revenues of $5.7 million, or 16 cents per share, for the nine month period ended December 31, 1999.

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, lubes, and communications.

Marketable securities The Company's investments in marketable securities are classified as available-for-sale securities and are carried at fair value. Net unrealized gains or losses on available-for-sale securities, if material, are reported as a component of other comprehensive income.

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 from the date a vessel is initially placed in service.

Interest costs capitalized to vessels and equipment for the years ended December 31, 2001 and 2000, and for the nine month period ended December 31, 1999 aggregated $2,531,000, $Nil, and $1,710,000, 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. Amortization of drydocking expenditures for the years ended December 31, 2001 and 2000, and the nine month period ended December 31, 1999 aggregated $14,214,000, $9,208,000, and $6,275,000, respectively.

Investment in joint ventures The Company has a 50% participating interest in three joint venture companies each of which

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owns a shuttle tanker. The joint ventures are accounted for using the equity method whereby the investment is carried at the Company's original cost plus its proportionate share of undistributed earnings.

During 2001, another joint venture in which the Company owns a 50% interest sold its three vessels.

Investment in the Panamax O/B/O Pool All oil/bulk/ore carriers ("O/B/O") owned by the Company are operated through a Panamax O/B/O Pool. The participants in the Pool are the companies contributing vessel capacity to the Pool. The voyage revenues and expenses of these vessels have been included on a 100% basis in the consolidated financial statements. The minority pool participants' share of the result has been deducted as time charter hire expense.

Loan costs Loan costs, including fees, commissions and legal expenses, which are presented as other assets are capitalized and amortized on a straight line basis over the term of the relevant loan. Amortization of loan costs is included in interest expense.

Derivative instruments Derivative instruments are recorded as assets or liabilities, measured at fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending upon the nature of the hedge, changes in the fair value of the derivatives are either offset against the fair value of assets, liabilities or firm commitments through income, or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized into income (see Note 13).

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

Cash interest paid during the years ended December 31, 2001 and 2000, and the nine month period ended December 31, 1999 totalled $54,764,000, $77,073,000, and $63,086,000, respectively.

Income taxes The legal jurisdictions of the countries in which Teekay and the majority of its subsidiaries are incorporated do not impose income taxes upon shipping-related activities. The Company's Australian shipowning subsidiaries and Norwegian subsidiary Ugland Nordic Shipping ASA ("UNS") are subject to income taxes. UNS income taxes are deferred until payment of dividends (see Note 12). Included in other long-term liabilities are deferred income taxes of $36.3 million at December 31, 2001 and $4.2 million at December 31, 2000. The Company accounts for such taxes using the liability method pursuant to Statement of Financial Accounting Standards No. 109, " Accounting for Income Taxes."

Accounting for Stock-Based Compensation Under Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," disclosures of stock-based compensation arrangements with employees are required and companies are encouraged (but not required) to record compensation costs associated with employee stock option awards, based on estimated fair values at the grant dates. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 ("APB 25") "Accounting for Stock Issued to Employees" and has disclosed the required pro forma effect on net income and earning per share as if the fair value method of accounting as prescribed in SFAS 123 had been applied (see Note 10).

Comprehensive income The Company follows Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements.

Goodwill Goodwill acquired as a result of the acquisition of UNS (see Note 3) is amortized over 20 years using the straight-line method. Management periodically reviews goodwill for permanent diminution in value. As at December 31, 2001, goodwill is net of accumulated amortization of $3.5 million.

Recent accounting pronouncements In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which establishes new standards for accounting for goodwill and other intangible assets. SFAS 142 requires that goodwill and indefinite lived intangible assets no longer be amortized but reviewed annually for impairment, or more frequently if impairment indicators arise. This statement is effective for existing goodwill beginning with fiscal years starting after December 15, 2001. Based upon the Company's goodwill balance at December 31, 2001, the Company estimates that adoption of SFAS 142 will result in an annual increase in net income of approximately $4.5 million, by no longer amortizing goodwill.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations" for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Company does not anticipate that the adoption of SFAS 144 will have a significant impact on the Company's consolidated financial position or results of operations.

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.

One customer, an international oil company, accounted for 13% ($130,818,000) of the company's consolidated voyage revenues during the year ended December 31, 2001. Two customers, both international oil companies, individually accounted for 13% ($118,306,000) and 12% ($110,241,000) of the company's consolidated voyage revenues during the year ended December 31, 2000. During the nine months ended December 31, 1999, a single customer, also an international oil company,

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accounted for 13% ($48,140,000) of the Company's consolidated voyage revenues. No other customer accounted for more than 10% of the Company's consolidated voyage revenues during the fiscal periods presented herein.

3. Acquisition of Ugland Nordic Shipping ASA

As of May 28, 2001, Teekay had purchased 100% of the issued and outstanding shares of UNS (9% of which was purchased in fiscal 2000 and the remaining 91% was purchased in fiscal 2001), for $222.8 million cash, including estimated transaction expenses of approximately $7 million, or at an average price of Norwegian Kroner 136 per share. UNS controls a modern fleet of 18 shuttle tankers (including three new buildings on order) that engage in the transportation of oil from offshore production platforms to onshore storage and refinery facilities.

The acquisition of UNS has been accounted for using the purchase method of accounting, based upon estimates of fair value. UNS' operating results are reflected in these financial statements commencing March 6, 2001, the date Teekay acquired control. Equity income related to the Company's 9% interest in UNS up to December 31, 2000 has been credited as an adjustment to retained earnings. Teekay's interest in UNS for the period from January 1, 2001 to March 5, 2001 has been included in equity income for the corresponding period.

The following table shows comparative summarized consolidated pro forma financial information for the years ended December 31, 2001 and 2000 and gives effect to the acquisition of 100% of the outstanding shares in UNS as if it had taken place January 1, 2000:

	Pro Forma	
	Year Ended December 31, 2001 (unaudited)	Year Ended December 31, 2000 (unaudited)
Net voyage revenues	**$ 805,754**	$ 713,350
Net income	**336,514**	265,554
Net income per common share		
• Basic	**8.47**	6.90
• Diluted	**8.31**	6.75

4. Acquisition of Bona Shipholding Ltd.

On June 11, 1999, Teekay purchased Bona Shipholding Ltd. ("Bona") for aggregate consideration (including transaction expenses of $19.0 million) of $450.3 million, consisting of $39.9 million in cash, $294.0 million of assumed debt (net of cash acquired of $91.7 million) and the balance of $97.4 million in shares of Teekay's Common Stock. Bona's operating results are reflected in these financial statements commencing the effective date of the acquisition.

The following table shows summarized condensed pro forma financial information for the nine month period ended December 31, 1999 and gives effect to the acquisition as if it had taken place April 1, 1999:

	Pro Forma Nine Months Ended December 31, 1999 (unaudited)
Net voyage revenues	$ 272,469
Income from vessel operations	26,127
Net loss	(22,482)
Net loss per common share	
– basic and diluted	(0.59)

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5. Investments in Marketable Securities

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Market and Carrying Values
December 31, 2001				
Available-for-sale equity securities	$ 24,500	$ —	$ (8,474)	$ 16,026
Available-for-sale debt securities	5,028	—	—	5,028
	29,528	—	—	21,054
December 31, 2000				
Available-for-sale equity securities	$ 17,032	$ 4,577	$ —	$ 21,609
Available-for-sale debt securities	20,236	8	(30)	20,214
	37,268	4,585	(30)	41,823

The cost and approximate market value of available-for-sale debt securities by contractual maturity, as at December 31, 2001 and December 31, 2000, are shown as follows:

	Cost	Approximate Market and Carrying Values
December 31, 2001		
Less than one year	$ 5,028	$ 5,028
Due after one year through five years	—	—
	5,028	5,028
December 31, 2000		
Less than one year	8,081	8,081
Due after one year through five years	12,155	12,133
	$ 20,236	$ 20,214

6. Accrued Liabilities

	December 31, 2001	December 31, 2000
Voyage and vessel	**$ 16,450**	$ 26,461
Interest	**24,180**	9,444
Payroll and benefits	**10,381**	8,176
	$ 51,011	$ 44,081

7. Long-Term Debt

	December 31, 2001	December 31, 2000
Revolving Credit Facilities	$ **—**	$ 415,800
First Preferred Ship Mortgage Notes (8.32%) due through 2008	**167,229**	189,274
Term Loans due through 2010	**416,239**	192,410
Senior Notes (8.875%) due July 15, 2011	**352,234**	—
	935,702	797,484
Less current portion	**51,830**	72,170
	$ 883,872	$ 725,314

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The Company has two long-term Revolving Credit Facilities (the "Revolvers") available, which, as at December 31, 2001, provided for borrowings of up to $508.2 million. Interest payments are based on LIBOR (December 31, 2001: 1.9%; December 31, 2000: 6.4%) plus a margin depending on the financial leverage of the Company; at December 31, 2001, the margins ranged between 0.50% and 0.75% (December 31, 2000: between 0.50% and 0.85%). The amount available under the Revolvers reduces semi-annually with final balloon reductions in 2006 and 2008. The Revolvers are collateralized by first priority mortgages granted on 31 of the Company's vessels, together with certain other related collateral, and a guarantee from Teekay for all amounts outstanding under the Revolvers.

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 December 31, 2001, the fair value of these net assets approximated $175.4 million. The 8.32% Notes are also subject to a sinking fund, which will retire $45.0 million principal amount of the 8.32% Notes on each February 1, commencing 2004. During June 2001, the Company repurchased a principal amount of $22.0 million of the 8.32% Notes outstanding.

Upon the 8.32% Notes achieving Investment Grade Status (as defined in the Indenture) 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 (as defined in the Indenture) 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 Company has several term loans outstanding, which, as at December 31, 2001, totalled $416.2 million. Interest payments are based on LIBOR plus a margin. At December 31, 2001, the margins ranged between 0.50% and 1.45% (December 31, 2000: between 0.55% and 1.25%). The term loans reduce in quarterly or semi-annual payments with varying maturities through 2010. All term loans of the Company are collateralized by first preferred mortgages on the vessels to which the loans relate, together with certain other collateral, and guarantees from Teekay. UNS terms loans totalling $309.0 million are not guaranteed by Teekay. One term loan required a retention deposit of $7.8 million as at December 31, 2001.

The 8.875% Senior Notes due July 15, 2011 (the "8.875% Notes") rank equally in right of payment with all of the Company's existing and future senior unsecured debt and senior to the Company's existing and future subordinated debt. The 8.875% 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, secured and unsecured, of its subsidiaries.

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 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 December 31, 2001, to $448.0 million. Certain of the loan agreements require a minimum level of free cash be maintained. As at December 31, 2001, this amount was $75.0 million.

The aggregate annual long-term debt principal repayments required to be made for the five fiscal years subsequent to December 31, 2001 are $51,830,000 (2002), $63,605,000 (2003), $84,868,000 (2004), $109,786,000 (2005), and $128,524,000 (2006).

8. Leases

Charters-out Time charters and bareboat 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 and bareboat charters currently in place are $161,345,000 (2002), $137,705,000 (2003), $136,258,000 (2004), $111,074,000 (2005), $100,712,000 (2006), and $595,046,000 thereafter.

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

Charters-in Minimum commitments under vessel operating leases are $28,463,000 (2002), $24,303,000 (2003), $10,848,000 (2004), $1,961,000 (2005) and $Nil (2006).

9. 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 agreements and foreign exchange contracts - The fair value of interest rate swaps and foreign exchange contracts, 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, the current credit worthiness of the swap counter parties and foreign exchange rates.

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

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents, marketable securities, and restricted cash	$ 203,837	$ 203,837	$ 223,123	$ 223,123
Long-term debt	(935,702)	(952,055)	(797,484)	(789,913)
Derivative instruments (note 13)				
Interest rate swap agreements	(2,429)	(2,429)	—	(1,297)
Foreign currency contracts	(343)	(343)	—	2,252
Bunker fuel swap contracts	(328)	(328)		—
Written freight call option	(857)	(857)	—	—

The Company transacts all of its derivative instruments with investment grade rated financial institutions and requires no collateral from these institutions.

10. Capital Stock

The authorized capital stock of Teekay at December 31, 2001 is 25,000,000 shares of Preferred Stock, with a par value of $1 per share and 725,000,000 shares of Common Stock, with a par value of $0.001 per share. As at December 31, 2001, Teekay had 39,550,326 shares of Common Stock and no shares of Preferred Stock issued and outstanding.

On September 19, 2001, Teekay announced that its Board of Directors had authorized the repurchase of up to 2,000,000 shares of its Common Stock in the open market. As at December 31, 2001, Teekay had repurchased 512,800 shares of Common Stock at an average price of $27.617 per share.

As of December 31, 2001, the Company had reserved 3,993,933 shares of Common Stock for issuance upon exercise of options granted pursuant to the Company's 1995 Stock Option Plan (the "Plan"). During the years ended December 31, 2001 and 2000, and the nine month period ended December 31, 1999, the Company granted options under the Plan to acquire up to 863,200, 889,500, and 1,463,500 shares of Common Stock (the "Grants"), respectively, to certain eligible officers, employees (including senior sea staff), and directors of the Company. The options have a 10-year term and had initially vested equally over four years from the date of grant. Effective September 8, 2000, the Company amended the Plan which reduced the vesting period for all subsequent stock option grants from four years to three years. In addition, the Company also accelerated the vesting period for the existing grants by one year. The impact of the accelerated vesting for the existing grants on compensation expense was not material for the years ended December 31, 2001 and 2000.

A summary of the Company's stock option activity, and related information for the years ended December 31, 2001 and 2000, and the nine month period ended December 31, 1999 is as follows:

	DECEMBER 31, 2001		DECEMBER 31, 2000		DECEMBER 31, 1999	
	Options (000's)	Weighted Average Exercise Price	Options (000's)	Weighted Average Exercise Price	Options (000's)	Weighted Average Exercise Price
Outstanding-beginning of period	# 2,860	$ 22.25	# 3,099	$ 22.14	# 1,729	$ 26.46
Granted	863	41.19	889	23.56	1,464	17.11
Exercised	(917)	22.44	(1,080)	23.00	—	—
Forfeited	(66)	26.86	(48)	22.77	(94)	21.12
Outstanding-end of period	2,740	28.04	2,860	22.25	3,099	22.14
Exercisable at end of period	1,164	22.99	1,453	23.54	1,019	25.35
Weighted-average fair value of options granted during the period (per option)		$ 10.19		$ 6.62		$ 3.88

Exercise prices for the options outstanding as of December 31, 2001 ranged from $16.88 per share to $41.19 per share. These options have a weighted-average remaining contractual life of 7.78 years.

As the exercise price of the Company's employee stock options equals the market price of underlying stock on the date of grant, no compensation expense is recognized under APB 25.

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 earnings per share for the

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years ended December 31, 2001 and 2000, and the nine month period ended December 31, 1999 would have been stated at the pro forma amounts as follows:

	YEAR ENDED DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2000	NINE MONTHS ENDED DECEMBER 31, 1999
Net income (loss):			
As reported	**$ 336,518**	$ 270,020	$ (19,595)
Pro forma	**330,052**	264,449	(21,828)
Basic earnings (loss) per common share:			
As reported	**8.48**	7.02	(0.54)
Pro forma	**8.31**	6.87	(0.60)
Diluted earnings (loss) per common share:			
As reported	**8.31**	6.86	(0.54)
Pro forma	**8.15**	6.72	(0.60)

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 4.5% for the year ended December 31, 2001; 6.6% for the year ended December 31, 2000; and 5.8% for the nine month period ended December 31, 1999, respectively; dividend yield of 3.0%; expected volatility of 30% for the years ended December 31, 2001 and 2000 and 25% for the nine months ended December 31, 1999; and expected lives of five years.

Basic earnings per share is based upon the following weighted-average number of common shares outstanding: 39,706,799 shares for the year ended December 31, 2001; 38,468,158 shares for the year ended December 31, 2000; and 36,384,191 shares for the nine month period ended December 31, 1999. Diluted earnings per share, which gives effect to the aforementioned stock options, is based upon the following weighted-average number of common shares outstanding: 40,488,222 shares for the year ended December 31, 2001; 39,368,253 shares for the year ended December 31, 2000; and 36,405,089 shares for the nine month period ended December 31, 1999.

11. Related Party Transactions

As at December 31, 2001 Cirrus Trust and JTK Trust ("the Trusts") owned, indirectly through wholly owned subsidiaries, 41.2% of the Company's outstanding Common Stock. Several of the Company's directors are responsible for the supervision of the Trusts or subsidiaries wholly owned by the Trusts.

Payments made by the Company to the Trusts or companies related through common ownership in respect of port agent services, legal and administration fees, shared office costs and consulting fees for the years ended December 31, 2001 and 2000 and the nine month period ended December 31, 1999 totalled $1,499,700, $1,638,300, and $510,200, respectively.

12. Other Income (Loss)

	YEAR ENDED DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2000	NINE MONTHS ENDED DECEMBER 31, 1999
Loss on disposition of vessels and equipment	$ **—**	$ (1,004)	$ —
Gain on disposition of available-for-sale securities	**758**	—	—
Equity income from joint ventures	**17,324**	9,546	721
Future income taxes	**(6,963)**	(999)	(1,500)
Miscellaneous	**(1,011)**	(3,679)	(3,234)
	$ **10,108**	$ 3,864	$ (4,013)

13. Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," which establishes new standards for recording derivatives in interim and annual financial statements (see Note 1). SFAS 133, as amended by Statements of

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Financial Accounting Standards No. 137 and No. 138, is effective for fiscal years beginning after June 15, 2000.

The Company adopted SFAS 133 on January 1, 2001. The Company recognized the fair value of its derivatives as assets of $2.2 million and liabilities of $1.3 million on its consolidated balance sheet as of January 1, 2001. These amounts were recorded as a cumulative effect of an accounting change as an adjustment to stockholders' equity through other comprehensive income. There was no impact on net income. In addition, a deferred gain of $3.2 million on unwound interest rate swap agreements presented as other long-term liabilities at December 31, 2000, was reclassified to accumulated other comprehensive income and will be recognized into earnings over the hedged term of the debt.

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

The Company hedges portions of its forecasted expenditures denominated in foreign currencies with forward contracts and a portion of its bunker fuel expenditures with bunker fuel swap contracts. As at December 31, 2001, the Company was committed to foreign exchange contracts for the forward purchase of approximately Japanese Yen 100.0 million, Singapore Dollars 3.9 million, Norwegian Kroner 75.0 million, Canadian Dollars 80.4 million and Euros 3.9 million for U.S. Dollars, at an average rate of Japanese Yen 127.04 per U.S. Dollar, Singapore Dollar 1.81 per U.S. Dollar, Norwegian Kroner 9.49 per U.S. Dollar, Canadian Dollar 1.57 per U.S. Dollar and Euros 0.92 per U.S. Dollar, respectively. As at December 31, 2001, the Company was committed to bunker fuel swap contracts totalling 42,000 metric tonnes with a weighted-average price of $113.54 per tonne, which expire between January 2002 and May 2004.

As at December 31, 2001, the Company was committed to a series of interest rate swap agreements whereby $85.0 million of the Company's floating rate debt was swapped with fixed rate obligations having a weighted average remaining term of 1.1 years, expiring between May 2002 and May 2004. These agreements effectively change the Company's interest rate exposure on $85.0 million of debt from a floating LIBOR rate to a weighted average fixed rate of 6.40%. 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 Company hedges certain of its voyage revenues through the use of a written freight call option. As at December 31, 2001, the Company had sold a 12-month written call option for $0.9 million which could require payments to the counterparty if monthly average freight rates exceed a specified amount.

During the year ended December 31, 2001, the Company recognized a net loss of $0.1 million relating to the ineffective portion of its interest rate swap agreements and foreign currency forward contracts. The ineffective portion of these derivative instruments is presented as interest expense and other income (loss), respectively.

As at December 31, 2001, the Company estimates, based on current foreign exchange rates, bunker fuel prices and interest rates, that it will reclassify approximately $0.6 million of net loss on derivative instruments from accumulated other comprehensive income to earnings during the next 12 months due to actual voyage, vessel operating, drydocking and general and administrative expenditures and the payment of interest expense associated with the floating-rate debt.

14. Commitments and Contingencies

As at December 31, 2001, the Company was committed to the construction of three shuttle, three Suezmax and two Aframax tankers scheduled for delivery between December 2002 and December 2003, at a total cost of approximately $410.8 million. As of December 31, 2001, there have been payments made towards these commitments of $112.8 million and long-term financing arrangements exist for $61.5 million of the unpaid cost of these vessels. It is the Company's intention to finance the remaining unpaid amount of $236.5 million through either debt borrowing or surplus cash balances, or a combination thereof. As of December 31, 2001, the remaining payments required to be made under these newbuilding contracts are as follows: $56.2 million in 2002 and $241.8 million in 2003.

Teekay and certain subsidiaries of Teekay have guaranteed their share of the outstanding mortgage debt in three 50%-owned joint venture companies. As of December 31, 2001, Teekay and these subsidiaries have guaranteed $87.8 million of such debt, or 50% of the total $175.6 million in outstanding mortgage debt of the joint venture companies. These joint venture companies own three shuttle tankers.

15. Change in Non-Cash Working Capital Items Related to Operating Activities

	YEAR ENDED DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2000	NINE MONTHS ENDED DECEMBER 31, 1999
Accounts receivable	**$ 23,993**	$ (49,405)	$ (5,462)
Prepaid expenses and other assets	**5,152**	3,443	307
Accounts payable	**666**	2,613	(6,571)
Accrued liabilities	**(1,614)**	6,673	12,622
	$ 28,197	$ (36,676)	$ 896

(all tabular amounts stated in thousands of U.S. dollars, except per share and per day data, or as otherwise indicated)

	YEAR ENDED DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2000	NINE MONTHS ENDED DECEMBER 31, 1999	YEAR ENDED MARCH 31, 1999	YEAR ENDED MARCH 31, 1998
Income Statement Data:					
Net voyage revenues	$ 789,494	$ 644,269	$ 248,350	$ 318,411	$ 305,260
Income from vessel operations	383,463	327,675	23,572	85,634	107,640
Net income (loss) before extraordinary items	336,518	270,020	(19,595)	52,712	70,504
Extraordinary loss on bond redemption	–	–	–	(7,306)	–
Net income (loss)	336,518	270,020	(19,595)	45,406	70,504
Per Share Data:					
Fully diluted earnings per share	$ 8.31	$ 6.86	$ (0.54)	$ 1.46	$ 2.44
Weighted average shares outstanding-diluted (thousands)	40,488	39,368	36,405	31,063	28,870
Balance Sheet Data (at end of period):					
Total assets	$2,467,181	$1,974,099	$1,982,684	$1,452,220	$1,460,183
Total stockholders' equity	1,398,200	1,098,512	832,067	777,390	689,455
Other Financial Data:					
EBITDA	$ 539,324	$ 451,066	$ 95,875	$ 186,069	$ 209,582
Net debt to capitalization (%)	34.3	34.3	50.7	39.6	46.9
Capital expenditures:					
Vessel purchases, gross*	$ 544,737	$ 43,512	$ 452,584	$ 85,445	$ 197,199
Drydocking	20,064	11,941	6,598	11,749	18,376
Fleet Data:					
Average number of ships	82	71	65	47	43
Aframax time-charter equivalent (TCE)	$ 30,542	$ 27,138	$ 13,462	$ 19,576	$ 21,373
Total fleet operating cash flow per ship per day	17,682	16,687	5,177	11,171	12,682

** Includes vessels from acquisitions.*

Board of Directors

Bruce C. Bell
Director and Corporate Secretary,
Managing Director of Oceanic Bank and Trust Limited

Dr. Ian D. Blackburne
Director,
Former CEO, Caltex Australia Petroleum Pty. Ltd.

C. Sean Day
Chairman of the Board of Directors,
President of Seagin International, LLC

Morris L. Feder
Director,
President of Worldwide Cargo Inc.

Leif O. Höegh,
Director,
Managing Director of Leif Höegh (UK) Ltd.

Thomas Kuo-Yuen Hsu
Director,
Executive Director of Expedo & Company (London) Ltd.

Axel Karlshoej
Director and Chairman Emeritus,
President of Nordic Industries Inc.

Eileen A. Mercier
Director,
President of Finvoy Management Inc.

Bjorn Moller
Director,
President and CEO

Teekay Board Committees

Audit Committee

Eileen A. Mercier – Chair
Morris L. Feder
Leif O. Höegh

Executive Committee

Bjorn Moller – Chair
C. Sean Day
Morris L. Feder
Axel Karlshoej

Governance Committee

C. Sean Day – Chair
Bruce C. Bell
Eileen A. Mercier
Bjorn Moller

Resource Committee

Axel Karlshoej – Chair
Dr. Ian D. Blackburne
Thomas Kuo-Yuen Hsu

Corporate Information

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P.O. Box 11258
Church Street Station
New York, New York 10286
Tel: 1-800-524-4458

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 the 12 months ending December 31, 2001:

QUARTER ENDED	HIGH	LOW	DIVIDENDS DECLARED (PER SHARE)
Mar. 31, 2001	$45.60	$33.25	$0.215
Jun. 30, 2001	$52.61	$38.62	$0.215
Sept. 30, 2001	$41.00	$29.16	$0.215
Dec. 31, 2001	$35.01	$25.49	$0.215

STOCK EXCHANGE LISTING
New York Stock Exchange
Symbol: TK
There were 39.6 million shares outstanding at December 31, 2001.

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

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