

ADELAAR GLENN A  
Form 4  
February 08, 2018

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

Check this box  
if no longer  
subject to  
Section 16.  
Form 4 or  
Form 5  
obligations  
may continue.  
*See* Instruction  
1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF  
SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,  
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section  
30(h) of the Investment Company Act of 1940

**OMB APPROVAL**

OMB  
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(Print or Type Responses)

1. Name and Address of Reporting Person \*  
ADELAAR GLENN A

(Last) (First) (Middle)

1915 SNAPPS FERRY  
ROAD, BUILDING N

(Street)

GREENEVILLE, TN 37745

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading  
Symbol

FORWARD AIR CORP [FWRD]

3. Date of Earliest Transaction  
(Month/Day/Year)

02/06/2018

4. If Amendment, Date Original  
Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to  
Issuer

(Check all applicable)

\_\_\_\_ Director \_\_\_\_ 10% Owner  
\_\_X\_\_ Officer (give title \_\_\_\_ Other (specify  
below) below)

Senior VP, Systems Technology

6. Individual or Joint/Group Filing(Check  
Applicable Line)  
\_\_X\_\_ Form filed by One Reporting Person  
\_\_\_\_ Form filed by More than One Reporting  
Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1. Title of<br>Security<br>(Instr. 3) | 2. Transaction Date<br>(Month/Day/Year) | 2A. Deemed<br>Execution Date, if<br>any<br>(Month/Day/Year) | 3. Transaction<br>Code<br>(Instr. 8) | 4. Securities<br>Acquired (A) or<br>Disposed of (D)<br>(Instr. 3, 4 and 5) | 5. Amount of<br>Securities<br>Beneficially<br>Owned<br>Following<br>Reported<br>Transaction(s)<br>(Instr. 3 and 4) | 6. Ownership<br>Form: Direct<br>(D) or<br>Indirect (I)<br>(Instr. 4) | 7. Nature of<br>Indirect<br>Beneficial<br>Ownership<br>(Instr. 4) |
|---------------------------------------|---|---|--------------------------------------|--|--|--|---|
| Common<br>Stock                       | 02/06/2018                              |   | F <sup>(1)</sup>                     | 101 D \$ 0   | 34,501.4507  | D  |   |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
(e.g., puts, calls, warrants, options, convertible securities)**

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| 1. Title of<br>Derivative<br>Security<br>(Instr. 3) | 2. Conversion<br>or Exercise<br>Price of<br>Derivative<br>Security | 3. Transaction Date<br>(Month/Day/Year) | 3A. Deemed<br>Execution Date, if<br>any<br>(Month/Day/Year) | 4. Transaction<br>Code<br>(Instr. 8) | 5. Number<br>of<br>Derivative<br>Securities<br>Acquired<br>(A) or<br>Disposed<br>of (D)<br>(Instr. 3,<br>4, and 5) | 6. Date Exercisable and<br>Expiration Date<br>(Month/Day/Year) | 7. Title and<br>Amount of<br>Underlying<br>Securities<br>(Instr. 3 and 4) | 8. Price of<br>Derivative<br>Security<br>(Instr. 5) | 9. Nu<br>Deriv<br>Secur<br>Bene<br>Own<br>Follo<br>Repor<br>Trans<br>(Instr |
|---|--|---|---|--------------------------------------|--|--|---|---|---|
|   |  |   |   | Code                                 | V (A) (D)  | Date<br>Exercisable  | Expiration<br>Date  | Title   | Amount<br>or<br>Number<br>of<br>Shares                                      |

## Reporting Owners

| Reporting Owner Name / Address   | Relationships |           |                                     |       |
|--|---------------|-----------|-------------------------------------|-------|
|  | Director      | 10% Owner | Officer                             | Other |
| ADELAAR GLENN A<br>1915 SNAPPS FERRY ROAD<br>BUILDING N<br>GREENEVILLE, TN 37745 |               |           | Senior VP,<br>Systems<br>Technology |       |

## Signatures

/s/ Michael L. Hance,  
Attorney-in-Fact

02/08/2018

\*\*Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Restricted stock withheld by Issuer to satisfy minimum tax withholding obligation on vesting of restricted stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

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Equity contribution by joint venture partner

750

5,500

27,267

Reporting Owners

Issuance of Common Stock upon exercise of stock options

—

1,217

55,165

Distribution from subsidiaries to non-controlling interests

(136,151  
)

(360,392  
)

(360,820  
)

Cash dividends paid

(17,406  
)

(125,881  
)

(91,004  
)

Other financing activities

—

(3,682  
)

—

Net financing cash flow

(555,305  
)

924,457

726,761

Explanation of Responses:

INVESTING ACTIVITIES

Expenditures for vessels and equipment

(648,326  
)

(1,795,901  
)

(994,931  
)

Proceeds from sale of vessels and equipment

252,656

20,472

180,638

Proceeds from sale-lease back of vessels

355,306

—

—

Purchase of SPT (net of cash acquired of \$377)

—

(46,961  
)

—

Purchase of ALP (net of cash acquired of \$294)

—

Explanation of Responses:

—

(2,322

)

Purchase of Logitel (net of cash acquired of \$8,089)

—

—

4,090

Increase in restricted cash

—

(34,290

)

—

Recovery in term loans

—

—

4,814

Investment in equity-accounted investees

(61,885

)

(40,595

)

(79,602

)

(Advances to) loan repayments from equity-accounted investees

(96,823

)

Explanation of Responses:

53,173

(87,130

)

Direct financing lease payments received

23,535

20,824

22,856

Investment in cost accounted investment

—

—

(25,000

)

Other investing activities

324

—

(4,247

)

Net investing cash flow

(175,213

)

(1,823,278

)

(980,834

)

(Decrease) increase in cash and cash equivalents

(110,398

)

(128,512

Explanation of Responses:

)

192,244

Cash and cash equivalents, beginning of the year

678,392

806,904

614,660

Cash and cash equivalents, end of the year

567,994

678,392

806,904

Supplemental cash flow information (note 16)

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars and shares)

|   | TOTAL EQUITY   |   |                            |   |                                       |             |   |
|---|--|---|----------------------------|---|---------------------------------------|-------------|---|
|   | Thousands<br>of<br>Shares<br>of<br>Common<br>Stock<br>Outstanding<br># | Common<br>Stock and<br>Additional<br>Paid-in<br>Capital<br>\$ | Retained<br>Earnings<br>\$ | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss)<br>\$ | Non-<br>controlling<br>Interest<br>\$ | Total<br>\$ | Redeemable<br>Non-<br>controlling<br>Interest<br>\$ |
| Balance at December 31, 2013  | 70,729   | 713,760   | 435,217                    | (17,189 )   | 2,071,262                             | 3,203,050   | 16,564  |
| Net (loss) income   |  |   | (54,757 )                  |   | 178,759                               | 124,002     |   |
| Reclassification of redeemable<br>non-controlling interest in net income                            |  |   |                            |   | (7,777 )                              | (7,777 )    | 7,777   |
| Other comprehensive loss  |  |   |                            | (11,109 )   | (1,046 )                              | (12,155 )   |   |
| Dividends declared  |  |   | (93,021 )                  |   | (363,685 )                            | (456,706 )  | (11,499 )   |
| Reinvested dividends  | 1  | 6   |                            |   |                                       | 6           |   |
| Exercise of stock options and other (note<br>11)  | 1,771  | 55,165  |                            |   |                                       | 55,165      |   |
| Employee stock compensation (note 11)   |  | 1,828   |                            |   |                                       | 1,828       |   |
| Dilution gains on public offerings of<br>Teekay LNG, Teekay Offshore, Teekay<br>Tankers (note 4)    |  |   | 68,428                     |   |                                       | 68,428      |   |
| Additions to non-controlling interest<br>from share and unit issuances of<br>subsidiaries and other |  |   |                            |   | 412,792                               | 412,792     |   |
| Balance at December 31, 2014  | 72,501   | 770,759   | 355,867                    | (28,298 )   | 2,290,305                             | 3,388,633   | 12,842  |
| Net income  |  |   | 82,151                     |   | 323,309                               | 405,460     |   |
| Reclassification of redeemable<br>non-controlling interest in net income                            |  |   |                            |   | (13,280 )                             | (13,280 )   | 13,280  |
| Other comprehensive income  |  |   |                            | 13,407  | —                                     | 13,407      |   |
| Dividends declared  |  |   | (126,391 )                 |   | (354,069 )                            | (480,460 )  | (20,201 )   |
| Reinvested dividends  | 1  | 10  |                            |   |                                       | 10          |   |
| Exercise of stock options and other (note<br>11)  | 209  | 1,217   |                            |   |                                       | 1,217       |   |
| Employee stock compensation (note 11)   |  | 3,032   |                            |   |                                       | 3,032       |   |
| Dilution gains on public offerings of<br>Teekay LNG, Teekay Offshore and<br>Teekay Tankers (note 4) |  |   | (152,729 )                 |   |                                       | (152,729 )  |   |
| Additions to non-controlling interest<br>from share and unit issuances of<br>subsidiaries and other |  |   |                            |   | 535,784                               | 535,784     | 249,750   |
| Balance at December 31, 2015  | 72,711   | 775,018   | 158,898                    | (14,891 )   | 2,782,049                             | 3,701,074   | 255,671   |
| Net (loss) income   |  |   | (123,182 )                 |   | 209,846                               | 86,664      |   |
| Reclassification of redeemable<br>non-controlling interest in net income                            |  |   |                            |   | (25,342 )                             | (25,342 )   | 25,342  |
| Other comprehensive income  |  |   |                            | 3,241   | 1,977                                 | 5,218       |   |

Explanation of Responses:



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|   |        |         |           |           |            |            |           |
|---|--------|---------|-----------|-----------|------------|------------|-----------|
| Dividends declared  |        |         | (17,562 ) |           | (120,801 ) | (138,363 ) | (27,058 ) |
| Reinvested dividends  | 1      | 4       |           |           |            | 4          |           |
| Employee stock compensation and other (note 11)   | 102    | 6,591   |           |           |            | 6,591      |           |
| Equity offerings (note 11)  | 13,336 | 105,462 |           |           |            | 105,462    |           |
| Dilution losses on public offerings of Teekay Offshore and Teekay Tankers (note 4)            |        |         | 9,732     |           |            | 9,732      |           |
| Additions to non-controlling interest from share and unit issuances of subsidiaries and other |        |         | (4,993 )  | 1,047     | 342,199    | 338,253    | (4,853 )  |
| Balance at December 31, 2016  | 86,150 | 887,075 | 22,893    | (10,603 ) | 3,189,928  | 4,089,293  | 249,102   |

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

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

1. Summary of Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (or GAAP). They include the accounts of Teekay Corporation (or Teekay), which is incorporated under the laws of the Republic of The Marshall Islands, and its wholly-owned or controlled subsidiaries (collectively, the Company). Certain of Teekay's significant non-wholly owned subsidiaries are consolidated in these financial statements even though Teekay owns less than a 50% ownership interest in the subsidiaries. These significant subsidiaries include the following publicly traded subsidiaries (collectively, the Public Subsidiaries): Teekay LNG Partners L.P. (or Teekay LNG); Teekay Offshore Partners L.P. (or Teekay Offshore); and Teekay Tankers Ltd. (or Teekay Tankers). As of December 31, 2016, Teekay owned a 33.1% interest in Teekay LNG (33.1% - December 31, 2015), including common units and its 2% general partner interest, and a 29.0% interest in Teekay Offshore (37.0% - December 31, 2015), including common units and its 2% general partner interest, and a 26% interest in Teekay Offshore's 10.50% Series D Cumulative Convertible Perpetual Preferred Units (the Series D Preferred Units), and 25.4% of the capital stock of Teekay Tankers (25.9% - December 31, 2015), including Teekay Tankers' outstanding shares of Class B common stock, which entitle the holders to five votes per share, subject to a 49% aggregate Class B Common Stock voting power maximum. While Teekay owns less than 50% of each of the Public Subsidiaries, Teekay maintains control of Teekay LNG and Teekay Offshore by virtue of its 100% ownership interest in the general partners of Teekay LNG and Teekay Offshore, which are both master limited partnerships, and maintains control of Teekay Tankers through its ownership of a sufficient number of Class A common shares and Class B common shares, which provide increased voting rights, to maintain a majority voting interest in Teekay Tankers and thus consolidates these subsidiaries. Significant intercompany balances and transactions have been eliminated upon consolidation. Teekay has entered into an omnibus agreement with Teekay LNG and Teekay Offshore to govern, among other things, when Teekay, Teekay LNG and Teekay Offshore may compete with each other and to provide the applicable parties certain rights of first offer on liquefied natural gas (or LNG) carriers, oil tankers, shuttle tankers, floating storage and off-take (or FSO) units and floating, production, storage and offloading (or FPSO) units.

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

Significant intercompany balances and transactions have been eliminated upon consolidation. In addition, certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period relating to certain operating activities in the Company's consolidated statements of cash flows.

Non-Controlling Interests

Where Teekay's ownership interest in a consolidated subsidiary is less than 100%, the non-controlling interests' share of these non-wholly owned subsidiaries are reported in the Company's consolidated balance sheets as a separate component of equity. The non-controlling interests' share of the net income of these non-wholly owned subsidiaries is reported in the Company's consolidated statements of income as a deduction from the Company's net income to arrive at net (loss) income attributable to shareholders of Teekay.

The basis for attributing net income of each non-wholly owned subsidiary to the controlling interest and the non-controlling interests, with the exception of Teekay LNG and Teekay Offshore, is based on the relative ownership interests of the non-controlling interests compared to the controlling interest, which is consistent with how dividends and distributions are paid or are payable for these non-wholly owned subsidiaries.

Explanation of Responses:

Teekay LNG and Teekay Offshore each have limited partners and one general partner. Both general partners are owned by Teekay. For both Teekay LNG and Teekay Offshore, the limited partners hold common units and preferred units. For each quarterly period, the method of attributing Teekay LNG's and Teekay Offshore's net income (loss) of that period to the non-controlling interests of Teekay LNG and Teekay Offshore begins by attributing net income (loss) of Teekay Offshore and Teekay LNG to the non-controlling interests which hold 100% of the preferred units of Teekay Offshore, except for Series D Preferred Units, of which they hold 74%, and 100% of the preferred units of Teekay LNG based on the amount of preferred unit distributions declared for the quarterly period. The remaining net income (loss) to be attributed to the controlling interest and the non-controlling interests of Teekay LNG and Teekay Offshore is divided into two components. The first component consists of the cash distribution that Teekay LNG or Teekay Offshore will declare and pay to limited and general partners for that quarterly period (or the Distributed Earnings). The second component consists of the difference between the net income (loss) of Teekay LNG or Teekay Offshore that is available to be allocated to the common unitholders and the general partner of such entity and the amount of the first component cash distribution (or the Undistributed Earnings). The portion of the Distributed Earnings that is allocated to the non-controlling interests is the amount of the cash distribution that Teekay LNG or Teekay Offshore will declare and pay to the non-controlling interests for that quarterly period. The portion of the Undistributed Earnings that is allocated to the non-controlling interests is based on the relative ownership percentages of the non-controlling interests of Teekay LNG and Teekay Offshore compared to the controlling interest. The controlling interests include both limited partner common units and the general partner interests.

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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

The total net income of Teekay's consolidated partially-owned entities and the attribution of that net income to controlling and non-controlling interests is as follows:

|                                      | Net income (loss) attributable to non-controlling interests |                        |                      |                                       |                                      | Controlling Interest |                        |                                     | Net income (loss) of consolidated partially-owned entities <sup>(1)</sup> |
|--------------------------------------|---|------------------------|----------------------|---------------------------------------|--------------------------------------|----------------------|------------------------|-------------------------------------|---|
|                                      | Non-partially-owned subsidiaries                            | Preferred stockholders | Distributed Earnings | Undistributed Earnings <sup>(2)</sup> | Total Net income (loss) attributable | Distributed Earnings | Undistributed Earnings | Total Controlling Interest (Teekay) |   |
| Teekay Offshore                      | 11,858  | 45,835                 | 41,688               | (46,155 )                             | 53,226                               | 18,378               | (27,129 )              | (8,751 )                            | 44,475  |
| Teekay LNG                           | 17,514  | 2,719                  | 30,444               | 60,545                                | 111,222                              | 15,026               | 31,717                 | 46,743                              | 157,965   |
| Teekay Tankers                       | —   | —                      | —                    | 47,459                                | 47,459                               | —                    | 14,820                 | 14,820                              | 62,279  |
| Other entities and eliminations      | —   | —                      | —                    | —                                     | (2,061 )                             |                      |                        |                                     |   |
| For the Year Ended December 31, 2016 | 29,372  | 48,554                 | 72,132               | 61,849                                | 209,846                              |                      |                        |                                     |   |
| Teekay Offshore                      | 13,911  | 28,609                 | 119,971              | (103,949 )                            | 58,542                               | 70,414               | (38,913 )              | 31,501                              | 90,043  |
| Teekay LNG                           | 16,627  | —                      | 120,482              | (1,510 )                              | 135,599                              | 82,791               | (880 )                 | 81,911                              | 217,510   |
| Teekay Tankers                       | —   | —                      | —                    | 129,725                               | 129,725                              | —                    | 47,202                 | 47,202                              | 176,927   |
| Other entities and eliminations      | —   | —                      | —                    | —                                     | (557 )                               |                      |                        |                                     |   |
| For the Year Ended December 31, 2015 | 30,538  | 28,609                 | 240,453              | 24,266                                | 323,309                              |                      |                        |                                     |   |
| Teekay Offshore                      | 10,503  | 10,875                 | 136,743              | (150,724 )                            | 7,397                                | 71,166               | (60,907 )              | 10,259                              | 17,656  |
| Teekay LNG                           | 13,489  | —                      | 143,292              | (26,116 )                             | 130,665                              | 101,946              | (13,684 )              | 88,262                              | 218,927   |
| Teekay Tankers                       | —   | —                      | —                    | 41,048                                | 41,048                               | —                    | 16,094                 | 16,094                              | 57,142  |
| Other entities and eliminations      | —   | —                      | —                    | —                                     | (351 )                               |                      |                        |                                     |   |
| For the Year Ended December 31, 2014 | 23,992  | 10,875                 | 280,035              | (135,792 )                            | 178,759                              |                      |                        |                                     |   |

(1) Includes earnings from common shares and preferred shares.

(2) Excludes the results of the acquisition of interests in vessels between Teekay Corporation, Teekay Offshore and Teekay Tankers during the periods the vessels were under common control and had begun operations.

When Teekay's non-wholly owned subsidiaries declare dividends or distributions to their owners, or require all of their owners to contribute capital to the non-wholly owned subsidiaries, such amounts are paid to, or received from, each of the owners of the non-wholly owned subsidiaries based on the relative ownership interests in the non-wholly owned subsidiary. As such, any dividends or distributions paid to, or capital contributions received from, the non-controlling interests are reflected as a reduction (dividends or distributions) or an increase (capital contributions) in non-controlling interest in the Company's consolidated balance sheets.

When Teekay's non-wholly owned subsidiaries issue additional equity interests to non-controlling interests, Teekay is effectively selling a portion of the non-wholly owned subsidiaries. Consequently, the proceeds received by the subsidiaries from their issuance of additional equity interests are allocated between non-controlling interest and

retained earnings in the Company's consolidated balance sheets. The portion allocated to non-controlling interest on the Company's consolidated balance sheets consists of the carrying value of the portion of the non-wholly owned subsidiary that is effectively disposed of, with the remaining amount attributable to the controlling interest, which consists of the Company's dilution gain or loss that is allocated to retained earnings.

Reporting currency

The consolidated financial statements are stated in U.S. Dollars. The functional currency of the Company is the U.S. Dollar because the Company operates in the international shipping market, which typically utilizes the U.S. Dollar as the functional currency. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of income.

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Operating revenues and expenses

Contracts of Affreightment and Voyage Charters

Revenues from contracts of affreightment and voyage charters are recognized on a proportionate performance method. The Company uses a discharge-to-discharge basis in determining proportionate performance for all voyage charters, whereby it recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. Shuttle tanker voyages servicing contracts of affreightment with offshore oil fields commence with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. The Company does not begin recognizing revenue until a charter has been agreed to by the customer and the Company, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Time Charters, Bareboat Charters and FPSO Contracts

Operating Leases - The Company recognizes revenues from time charters, bareboat charters and FPSO contracts accounted for as operating leases on a straight-line basis daily over the term of the charter as the applicable vessel operates under the charter. Receipt of incentive-based revenue from the Company's FPSO units is dependent upon its operating performance and such revenue is recognized when earned by fulfillment of the applicable performance criteria. The Company does not recognize revenue during days that the vessel is off hire unless the contract provides for compensation while off hire.

Direct Financing Leases - Charter contracts that are accounted for as direct financing leases are reflected on the consolidated balance sheets as net investments in direct financing leases. The lease revenue is recognized on an effective interest rate method over the lease term so as to produce a constant periodic rate of return over the lease terms and is included in revenues. Revenue from rendering of services is recognized as the service is performed. Revenues are not recognized during days that the vessel is off hire unless the contract provides for compensation while off hire.

The Company employs four LNG carriers, a FSO unit, and volatile organic compound emissions (or VOC) equipment on long-term time charters which are accounted for as direct financing leases. The lease payments received by the Company under these lease arrangements are allocated between the net investments in the leases and revenues or other income using the effective interest method so as to produce a constant periodic rate of return over the lease terms.

Pooling Arrangements

Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time-charter equivalent basis, are allocated to the pool participants according to an agreed formula. The agreed formula used to allocate net pool revenues varies between pools; however, the formula generally allocates revenues to pool participants on the basis of the number of days a vessel operates in the pool with weighting adjustments made to reflect vessels' differing capacities and performance capabilities. The same revenue and expense recognition principles stated above for voyage charters are applied in determining the net pool revenues of the pool. The pools are responsible for paying voyage expenses and distributing net pool revenues to the participants. The Company accounts for the net allocation from the pool as revenues and amounts due from the pool are included in accounts receivable.

Other Revenue

Other revenues are earned from the offshore ship-to-ship transfer of commodities, primarily crude oil and refined oil products, but also liquid gases and various other products which are referred to as support operations. In addition, other revenues are also earned from other technical activities such as terminal management, consultancy, procurement and equipment rental. Other revenues from short-term contracts are recognized as services are completed based on percentage of completion or in the case of long-term contracts, are recognized over the duration of the contract period.

Operating Expenses

Voyage expenses are all expenses unique to a particular voyage, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Vessel operating expenses include crewing, ship management services, repairs and maintenance, insurance, stores, lube oils and communication expenses. Voyage expenses and vessel operating expenses are recognized when incurred.

Cash and cash equivalents

The Company classifies all highly liquid investments with a maturity date of three months or less at their inception as cash equivalents.

Restricted Cash

The Company maintains restricted cash deposits relating to certain term loans, collateral for derivatives, project tenders, leasing arrangements, amounts received from charterers to be used only for dry-docking expenditures and emergency repairs and other obligations.

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience and customer economic data. The Company reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged off against the allowance when the Company believes that the receivable will not be recovered. There were no significant amounts recorded as allowance for doubtful accounts as at December 31, 2016, 2015, and 2014.

Vessels and equipment

All pre-delivery costs incurred during the construction of newbuildings, including interest, supervision and technical costs, are capitalized. The acquisition cost and all costs incurred to restore used vessels purchased by the Company 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 estimated useful life, less an estimated residual value. Depreciation is calculated using an estimated useful life of 25 years for tankers carrying crude oil and refined product, 20 to 25 years for FPSO units, 35 years for LNG carriers and 30 years for liquefied petroleum gas (or LPG) carriers, commencing the date the vessel is delivered from the shipyard, or a shorter period if regulations prevent the Company from operating the vessels for those periods of time. FSO units are depreciated over the term of the contract. Units for maintenance and safety (or UMS) are depreciated over an estimated useful life of 35 years commencing the date the unit arrives at the oil field and is in a condition that is ready to operate. Long-distance towing and offshore installation vessels are depreciated over an estimated useful life of 25 years commencing the date the vessel is delivered from the shipyard. Depreciation includes depreciation on all owned vessels and amortization of vessels accounted for as capital leases. Depreciation of vessels and equipment, excluding amortization of dry-docking expenditures, for the years ended December 31, 2016, 2015, and 2014 aggregated \$492.0 million, \$445.2 million and \$341.5 million, respectively. Amortization of vessels accounted for as capital leases was \$12.8 million, \$5.4 million and \$21.6 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Teekay Offshore considers its shuttle tankers to be comprised of two components: (i) a conventional tanker (or the tanker component) and (ii) specialized shuttle equipment (or the shuttle component). Teekay Offshore differentiates these two components on the principle that a shuttle tanker can also operate as a conventional tanker without the use of the shuttle component. The economics of this alternate use depend on the supply and demand fundamentals in the two segments. Historically, the useful life of both components was assessed as 25 years commencing from the date the vessel is delivered from the shipyard. In early 2016, Teekay Offshore considered factors related to the ongoing use of the shuttle component and reassessed the useful life as being 20 years based on the challenges associated with adverse market conditions in the energy sector and other long term factors associated with the global oil industry. This change in estimate, commencing January 1, 2016, impacts the entire fleet of Teekay Offshore's shuttle tanker vessels.

Separately, Teekay Offshore reviewed the depreciation of the tanker component for eight shuttle tankers in its fleet that are 17 years of age or older. Based on Teekay Offshore's expected operating plan for these vessels, commencing January 1, 2016, it has reassessed the estimated useful life of the tanker component for these vessels as 20 years. As market conditions evolve, Teekay Offshore will continue to monitor the useful life of the tanker component for other vessels within the shuttle tanker fleet.

The effect of these changes for Teekay Offshore in estimates on the Company's consolidated statements of income, was an increase in depreciation and amortization expense and a decrease in net income of \$29.3 million in the year ended December 31, 2016, and a decrease in net income and an increase in net loss attributable to shareholders of the Company of \$8.6 million, or \$0.10 per basic and diluted common share, for the year ended December 31, 2016.

Vessel capital modifications include the addition of new equipment or can encompass various modifications to the vessel that are aimed at improving or increasing the operational efficiency and functionality of the asset. This type of



expenditure is amortized over the estimated useful life of the modification. Expenditures covering recurring routine repairs and maintenance are expensed as incurred.

Interest costs capitalized to vessels and equipment for the years ended December 31, 2016, 2015, and 2014, aggregated \$36.9 million, \$22.0 million and \$51.3 million, respectively.

Generally, the Company dry docks each shuttle tanker, conventional oil tanker, long-distance towing and offshore installation vessel and gas carrier every two and a half to five years. UMS, FSO and FPSO units are generally not dry docked. The Company capitalizes a substantial portion of the costs incurred during dry docking and amortizes those costs on a straight-line basis over their estimated useful life, which typically is from the completion of a dry docking or intermediate survey to the estimated completion of the next dry docking. The Company includes in capitalized dry-docking costs those costs incurred as part of the dry docking to meet classification and regulatory requirements. The Company expenses costs related to routine repairs and maintenance performed during dry docking, and for annual class survey costs on the Company's FPSO units.

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(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

The continuity of capitalized dry-docking costs for the years ended December 31, 2016, 2015, and 2014, is summarized as follows:

|                                      | Year Ended December 31, |           |           |
|--------------------------------------|-------------------------|-----------|-----------|
|                                      | 2016                    | 2015      | 2014      |
|                                      | \$                      | \$        | \$        |
| Balance at the beginning of the year | 150,702                 | 135,331   | 118,194   |
| Costs incurred for dry dockings      | 47,980                  | 69,927    | 74,018    |
| Dry-dock amortization                | (55,026 )               | (47,271 ) | (50,926 ) |
| Write-down / sales of vessels        | (7,956 )                | (7,285 )  | (5,955 )  |
| Balance at the end of the year       | 135,700                 | 150,702   | 135,331   |

Vessels and equipment that are intended to be held and used in the Company's business are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the net undiscounted cash flows expected to be generated over its remaining useful life, the carrying amount of the asset is reduced to its estimated fair value. The estimated fair value for the Company's impaired vessels is determined using discounted cash flows or appraised values. In cases where an active second hand sale and purchase market does not exist, the Company uses a discounted cash flow approach to estimate the fair value of an impaired vessel. In cases where an active second hand sale and purchase market exists, an appraised value is used to estimate the fair value of an impaired vessel. An appraised value is generally the amount the Company would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Company and is based on second-hand sale and purchase data.

Vessels and equipment that are "held for sale" are measured at the lower of their carrying amount or fair value less costs to sell and are not depreciated while classified as held for sale. Interest and other expenses attributable to vessels and equipment classified as held for sale, or to their related liabilities, continue to be recognized as incurred.

Gains on vessels sold and leased back under capital leases are deferred and amortized over the remaining term of the capital lease. Losses on vessels sold and leased back under capital leases are recognized immediately when the fair value of the vessel at the time of sale and lease-back is less than its book value. In such case, the Company would recognize a loss in the amount by which book value exceeds fair value.

Other loan receivables

The Company's investments in loan receivables are recorded at cost. The Company analyzes its loans for collectability during each reporting period. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors the Company considers in determining that a loan is impaired include, among other things, an assessment of the financial condition of the debtor, payment history of the debtor, general economic conditions, the credit rating of the debtor (when available) any information provided by the debtor regarding their ability to repay the loan and the fair value of the underlying collateral. When a loan is impaired, the Company measures the amount of the impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate and recognizes the resulting impairment in the consolidated statements of income. The carrying value of the loans will be adjusted each subsequent reporting period to reflect any changes in the present value of estimated future cash flows.

The following table contains a summary of the Company's financing receivables by type of borrower, the method by which the Company monitors the credit quality of its financing receivables on a quarterly basis, and the grade as of December 31, 2016.

Explanation of Responses:

| Class of Financing Receivable                                  | Credit Quality Indicator | Grade      | December 31, |         |
|--|--------------------------|------------|--------------|---------|
|  |                          |            | 2016         | 2015    |
|  |                          |            | \$           | \$      |
| Direct financing leases  | Payment activity         | Performing | 660,594      | 684,129 |
| Other loan receivables   |                          |            |              |         |
| Loans to equity-accounted investees and joint venture partners | Other internal metrics   | Performing | 304,030      | 191,517 |
| Long-term receivable included in other assets                  | Payment activity         | Performing | 17,712       | 37,032  |
|  |                          |            | 982,336      | 912,678 |

#### Joint ventures

The Company's investments in joint ventures are accounted for using the equity method of accounting. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and the Company's proportionate share of earnings or losses and distributions. The Company evaluates its investments in joint ventures for impairment when events or circumstances indicate that the carrying value of such investments may have experienced an other than temporary decline in value below their carrying value. If the estimated fair value is less than the carrying value and is considered an other than temporary decline, the carrying value is written down to its estimated fair value and the resulting impairment is recorded in the consolidated statements of income.

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(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Debt issuance costs

Debt issuance costs, including fees, commissions and legal expenses, are deferred and presented as a direct reduction from the carrying amount of the debt liability. Debt issuance costs related to loan facilities without a recognized debt liability will continue to be presented as non-current assets in the consolidated balance sheets. Debt issuance costs of revolving credit facilities are amortized on a straight-line basis over the term of the relevant facility. Debt issuance costs of term loans are amortized using the effective interest rate method over the term of the relevant loan.

Amortization of debt issuance costs is included in interest expense.

Derivative instruments

All derivative instruments are initially recorded at fair value as either assets or liabilities in the accompanying consolidated balance sheets and subsequently remeasured to fair value, regardless of the purpose or intent for holding the derivative. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and whether the contract qualifies for hedge accounting. The Company does not apply hedge accounting to its derivative instruments, except for certain types of interest rate swaps (See Note 14).

When a derivative is designated as a cash flow hedge, the Company formally documents the relationship between the derivative and the hedged item. This documentation includes the strategy and risk management objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge. Any hedge ineffectiveness is recognized immediately in earnings, as are any gains and losses on the derivative that are excluded from the assessment of hedge effectiveness. The Company does not apply hedge accounting if it is determined that the hedge was not effective or will no longer be effective, the derivative was sold or exercised, or the hedged item was sold, or repaid.

For derivative financial instruments designated and qualifying as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are initially recorded as a component of accumulated other comprehensive loss in total equity. In the periods when the hedged items affect earnings, the associated fair value changes on the hedging derivatives are transferred from total equity to the corresponding earnings line item in the consolidated statements of income. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in earnings in the consolidated statements of income. If a cash flow hedge is terminated and the originally hedged item is still considered possible of occurring, the gains and losses initially recognized in total equity remain there until the hedged item impacts earnings, at which point they are transferred to the corresponding earnings line item (e.g. general and administrative expense) item in the consolidated statements of income. If the hedged items are no longer possible of occurring, amounts recognized in total equity are immediately transferred to the earnings item in the consolidated statements of income.

For derivative financial instruments that are not designated or that do not qualify as hedges under Financial Accounting Standards Board (or FASB) Accounting Standards Codification (or ASC) 815, Derivatives and Hedging, the changes in the fair value of the derivative financial instruments are recognized in earnings. Gains and losses from the Company's non-designated interest rate swaps related to long-term debt, capital lease obligations, restricted cash deposits, non-designated bunker fuel swap contracts and forward freight agreements, and non-designated foreign exchange currency forward contracts are recorded in realized and unrealized loss on non-designated derivative instruments. Gains and losses from the Company's hedge accounted foreign currency forward contracts are recorded primarily in vessel operating expenses and general and administrative expense. Gains and losses from the Company's non-designated cross currency swap are recorded in foreign currency exchange (loss) gain in the consolidated statements of income.

Goodwill and intangible assets

Goodwill is not amortized, but reviewed for impairment at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. When goodwill is reviewed for impairment, the Company may elect to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this step and use a fair value approach to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Company uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value. Intangible assets are assessed for impairment when and if impairment indicators exist. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

The Company's intangible assets consist primarily of acquired time-charter contracts, contracts of affreightment, and customer relationships. The value ascribed to the acquired time-charter contracts and contracts of affreightment are being amortized over the life of the associated contract, with the amount amortized each year being weighted based on the projected revenue to be earned under the contracts. The value ascribed to customer relationships intangible assets are amortized over the expected life of a customer contract or the expected duration that the customer relationships are estimated to contribute to the cash flows of the Company. The amount amortized each year is weighted based on the projected revenue to be earned under the contracts or projected revenue to be earned as a result of the customer relationships.

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(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

Asset retirement obligation

The Company has an asset retirement obligation (or ARO) relating to the sub-sea production facility associated with the Petrojarl Banff FPSO unit operating in the North Sea. This obligation generally involves the costs associated with the restoration of the environment surrounding the facility and removal and disposal of all production equipment. This obligation is expected to be settled at the end of the contract under which the FPSO unit currently operates. The ARO will be covered in part by contractual payments to be received from FPSO contract counterparties.

Teekay Offshore has an ARO relating to the sub-sea mooring and riser system associated with the Gina Krog FSO unit expected to commence operations in the North Sea in early-2017. This obligation involves the costs associated with the restoration of the environment surrounding the facility and removal of all equipment, which are subsequently required to be reimbursed by the charterer under the terms of the contract. This obligation is expected to be settled at the end of the contract under which the FSO unit is expected to operate, which is a three-year time-charter contract which includes 12 additional one-year extension options.

The Company records the fair value of an ARO as a liability in the period when the obligation arises. The fair value of the ARO is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate. When the liability is recorded, the Company capitalizes the cost by increasing the carrying amount of the related equipment. Each period, the liability is increased for the change in its present value, and the capitalized cost is depreciated over the useful life of the related asset. Changes in the amount or timing of the estimated ARO are recorded as an adjustment to the related asset and liability. As at December 31, 2016, the ARO and associated receivable, which is recorded in other non-current assets, were \$44.7 million and \$27.9 million, respectively (2015 - \$25.5 million and \$6.9 million, respectively).

Repurchase of common stock

The Company accounts for repurchases of common stock by decreasing common stock by the par value of the stock repurchased. In addition, the excess of the repurchase price over the par value is allocated between additional paid in capital and retained earnings. The amount allocated to additional paid in capital is the pro-rata share of the capital paid in and the balance is allocated to retained earnings.

Share-based compensation

The Company grants stock options, restricted stock units, performance share units and restricted stock awards as incentive-based compensation to certain employees and directors. The Company measures the cost of such awards using the grant date fair value of the award and recognizes that cost, net of estimated forfeitures, over the requisite service period, which generally equals the vesting period. For stock-based compensation awards subject to graded vesting, the Company calculates the value for the award as if it was one single award with one expected life and amortizes the calculated expense for the entire award on a straight-line basis over the vesting period of the award.

Compensation cost for awards with performance conditions is recognized when it is probable that the performance condition will be achieved. The compensation cost of the Company's stock-based compensation awards is substantially reflected in general and administrative expense.

Income taxes

The Company accounts for income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the applicable jurisdictional tax rates. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

Recognition of uncertain tax positions is dependent upon whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements. The Company recognizes interest and penalties related to uncertain tax positions in income tax (expense) recovery.

The Company believes that it and its subsidiaries are not subject to income taxation under the laws of the Republic of The Marshall Islands or Bermuda, or that distributions by its subsidiaries to the Company will be subject to any income taxes under the laws of such countries, and that it qualifies for the Section 883 exemption under U.S. federal income tax purposes.

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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

## Accumulated other comprehensive income (loss)

The following table contains the changes in the balances of each component of accumulated other comprehensive income (loss) attributable to shareholders of Teekay for the periods presented.

|                                   | Qualifying<br>Cash Flow<br>Hedging<br>Instruments<br>\$ | Pension<br>Adjustments<br>\$ | Unrealized<br>(Loss) Gain<br>on<br>Available<br>for Sale<br>Marketable<br>Securities<br>\$ | Foreign<br>Exchange<br>Gain (Loss)<br>on<br>Currency<br>Translation<br>\$ | Total<br>\$ |
|-----------------------------------|---|------------------------------|--|---|-------------|
| Balance as of December 31, 2013   | 17  | (18,919)                     | (171)  | 1,884   | (17,189)    |
| Other comprehensive (loss) income | (485)   | (10,969)                     | 171  | 174   | (11,109)    |
| Balance as of December 31, 2014   | (468)   | (29,888)                     | —  | 2,058   | (28,298)    |
| Other comprehensive income (loss) | 49  | 14,038                       | (463)  | (217)   | 13,407      |
| Balance as of December 31, 2015   | (419)   | (15,850)                     | (463)  | 1,841   | (14,891)    |
| Other comprehensive income        | 378   | 3,690                        | 47   | 173   | 4,288       |
| Balance as of December 31, 2016   | (41)  | (12,160)                     | (416)  | 2,014   | (10,603)    |

## Employee pension plans

The Company has defined contribution pension plans covering the majority of its employees. Pension costs associated with the Company's required contributions under its defined contribution pension plans are based on a percentage of employees' salaries and are charged to earnings in the year incurred. The Company also has defined benefit pension plans covering certain of its employees. The Company accrues the costs and related obligations associated with its defined benefit pension plans based on actuarial computations using the projected benefits obligation method and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The overfunded or underfunded status of the defined benefit pension plans are recognized as assets or liabilities in the consolidated balance sheets. The Company recognizes as a component of other comprehensive loss, the gains or losses that arise during a period but that are not recognized as part of net periodic benefit costs.

## (Loss) earnings per common share

The computation of basic earnings (loss) per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the exercise of all dilutive stock options and restricted stock awards using the treasury stock method. The computation of diluted loss per share does not assume such exercises.

## Accounting pronouncements not yet adopted

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



voyage until discharge is complete, instead of over the voyage until tendering notice for the next voyage. This will result in all revenue being fully recognized upon discharge of cargo whereas currently revenue recognition extends into the period the vessel returns to the oil field. This change may result in revenue being recognized earlier which may cause additional volatility in revenue and earnings between periods. In addition, the Company expects that the adoption of ASU 2014-09 may result in a change in the method of recognizing revenue for voyage charters, whereby the Company's method of determining proportional performance will change from discharge-to-discharge to load-to-discharge. This will result in no revenue being recognized from discharge of the prior voyage to loading of the current voyage and all revenue being recognized from loading of the current voyage to discharge of the current voyage. This change will result in revenue being recognized later in the voyage which may cause additional volatility in revenue and earnings between periods. The Company is in the process of validating aspects of its preliminary assessment of ASU 2014-09, determining the transitional impact and completing other items required for the adoption of ASU 2014-09.

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In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (or ASU 2016-02). ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company expects to adopt ASU 2016-02 on January 1, 2018. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company expects that the adoption of ASU 2016-02 will result in a change in accounting method for the lease portion of the daily charter hire for the Company's chartered-in vessels accounted for as operating leases and office leases with firm periods of greater than one year. Under ASU 2016-02, the Company will recognize a right of use asset and a lease liability on the balance sheet for these charters and office leases, whereas currently no right of use asset or lease liability is recognized. This will have the result of increasing the Company's assets and liabilities. The pattern of expense recognition of chartered-in vessels and office leases are expected to remain substantially unchanged, unless the right of use asset becomes impaired. The Company is in the process of validating aspects of its preliminary assessment of ASU 2016-02, determining the transitional impact and completing other items required for the adoption of ASU 2016-02.

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

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. This update replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for the Company on January 1, 2020, with a modified-retrospective approach. The Company is currently evaluating the effect of adopting this new guidance.

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which, among other things, provides guidance on two acceptable approaches of classifying distributions received from equity method investees in the statement of cash flows. This update is effective for the Company on January 1, 2018, with a retrospective approach. The Company is currently evaluating the effect of adopting this new guidance.

2. Segment Reporting

The Company has four primary lines of business: offshore logistics (shuttle tankers, the HiLoad DP unit, FSO units, UMS and long-distance towing and offshore installation vessels), offshore production (FPSO units), liquefied gas carriers (LNG and LPG carriers) and conventional tankers. The Company manages these businesses for the benefit of all stakeholders. The Company allocates capital and assesses performance both from the separate perspectives of its three publicly-traded subsidiaries Teekay Offshore, Teekay LNG, and Teekay Tankers (together, the Daughter Companies) and Teekay and its remaining subsidiaries (or Teekay Parent), as well as from the perspective of the Company's lines of business. The primary focus of the Company's organizational structure, internal reporting and allocation of resources by the chief operating decision maker, is on the Daughter Companies and Teekay Parent and its segments are presented accordingly. The Company incorporates the primary lines of business within its segments,

as in certain cases there is more than one line of business in each Daughter Company and the Company believes this information allows a better understanding of the Company's performance and prospects for future net cash flows.

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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, other than share data and unless otherwise indicated)

The following table includes results for the Company's revenue and income from vessel operations by segment for the periods presented in these financial statements.

|                               | Revenues <sup>(1)</sup> |            |            | Income from Vessel Operations <sup>(2)</sup> |           |           |
|-------------------------------|-------------------------|------------|------------|--|-----------|-----------|
|                               | Year Ended December 31, |            |            | Year Ended December 31,                      |           |           |
|                               | 2016                    | 2015       | 2014       | 2016   | 2015      | 2014      |
| Teekay Offshore               |                         |            |            |  |           |           |
| Offshore Logistics            | 636,421                 | 667,629    | 631,455    | 86,099                                       | 108,119   | 146,756   |
| Offshore Production           | 495,223                 | 531,554    | 354,518    | 140,264                                      | 165,152   | 95,991    |
| Conventional Tankers          | 20,746                  | 30,230     | 33,566     | 4,490  | 10,128    | 13,471    |
|                               | 1,152,390               | 1,229,413  | 1,019,539  | 230,853                                      | 283,399   | 256,218   |
| Teekay LNG                    |                         |            |            |  |           |           |
| Liquefied Gas Carriers        | 336,530                 | 305,056    | 307,426    | 174,600                                      | 151,200   | 156,868   |
| Conventional Tankers          | 59,914                  | 92,935     | 95,502     | (21,419 )                                    | 30,172    | 26,955    |
|                               | 396,444                 | 397,991    | 402,928    | 153,181                                      | 181,372   | 183,823   |
| Teekay Tankers <sup>(3)</sup> |                         |            |            |  |           |           |
| Conventional Tankers          | 526,896                 | 504,347    | 235,593    | 86,456                                       | 184,083   | 58,271    |
| Teekay Parent                 |                         |            |            |  |           |           |
| Offshore Production           | 231,435                 | 277,842    | 259,945    | (48,310 )                                    | (40,227 ) | (78,804 ) |
| Conventional Tankers          | 32,967                  | 65,777     | 94,376     | (15,967 )                                    | 4,984     | (12,407 ) |
| Other                         | 76,111                  | 75,547     | 95,791     | (32,219 )                                    | 5,015     | 17,488    |
|                               | 340,513                 | 419,166    | 450,112    | (96,496 )                                    | (30,228 ) | (73,723 ) |
| Eliminations and other        | (87,674 )               | (100,535 ) | (114,252 ) | 10,296                                       | 6,506     | 2,570     |
|                               | 2,328,569               | 2,450,382  | 1,993,920  | 384,290                                      | 625,132   | 427,159   |

Certain vessels are chartered between the Daughter Companies and Teekay Parent. The amounts in the table below (1) represent revenue earned by each segment from other segments within the group. Such intersegment revenue for the year ended 2016, 2015 and 2014 is as follows:

|  | Year Ended December 31, |         |         |
|--|-------------------------|---------|---------|
|  | 2016                    | 2015    | 2014    |
| Teekay Offshore - Offshore Logistics   | 43,104                  | 38,734  | 34,603  |
| Teekay Offshore - Conventional Tankers | 6,410                   | 29,259  | 32,411  |
| Teekay LNG - Liquefied Gas Carriers    | 37,336                  | 35,887  | 37,596  |
| Teekay Tankers - Conventional Tankers  | 5,404                   | 1,380   | 13,707  |
| Teekay Parent - Conventional Tankers   | —                       | 3,080   | —       |
|  | 92,254                  | 108,340 | 118,317 |

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

Financial information for Teekay Tankers includes operations of the Explorer Spirit, formerly known as the SPT (3) Explorer, and Navigator Spirit from December 18, 2015, the date Teekay Tankers acquired the vessels from Teekay Offshore.



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The following table presents revenues and percentage of consolidated revenues for customers that accounted for more than 10% of the Company's consolidated revenues during the periods presented. All of these customers are international oil companies.

|  | Year Ended<br>December 31,<br>2016 | Year Ended<br>December 31,<br>2015 | Year Ended<br>December 31,<br>2014 |
|--|------------------------------------|------------------------------------|------------------------------------|
| (U.S. dollars in millions)               |                                    |                                    |                                    |
| Royal Dutch Shell Plc <sup>(1) (2)</sup> | \$429.9 or 19%                     | <sup>(5)</sup>                     | <sup>(5)</sup>                     |
| BG Group <sup>(1) (2)</sup>              | <sup>(2)</sup>                     | \$263.4 or 11%                     | <sup>(5)</sup>                     |
| Petroleo Brasileiro SA <sup>(3)</sup>    | \$223.7 or 10%                     | \$231.8 or 10%                     | \$248.2 or 12%                     |
| Statoil ASA <sup>(4)</sup>               | <sup>(5)</sup>                     | <sup>(5)</sup>                     | \$239.8 or 12%                     |

(1) Teekay Offshore - Offshore Logistics and Offshore Production.

(2) In February 2016, Royal Dutch Shell Plc acquired BG Group Plc and therefore includes revenues from both Royal Dutch Shell Plc and BG Group Plc for 2016.

(3) Teekay Offshore - Offshore Logistics and Offshore Production, Teekay Tankers - Conventional Tankers and Teekay Parent - Conventional Tankers

(4) Teekay Offshore - Offshore Logistics, Teekay Tankers—Conventional Tankers, Teekay Parent - Offshore Production and Teekay Parent - Conventional Tankers

(5) Less than 10%

The following table includes other income statement items by segment for the periods presented in these financial statements.

|                               | Depreciation and Amortization |           |           | Asset Impairments, Loan Loss Recoveries, and Net (Loss) Gain on Sale of Vessels, Equipment and Other Operating Assets |          |          | Equity Income (Loss)       |           |          |
|-------------------------------|-------------------------------|-----------|-----------|---|----------|----------|----------------------------|-----------|----------|
|                               | Year Ended<br>December 31,    |           |           | Year Ended<br>December 31,  |          |          | Year Ended<br>December 31, |           |          |
|                               | 2016                          | 2015      | 2014      | 2016  | 2015     | 2014     | 2016                       | 2015      | 2014     |
| Teekay Offshore               |                               |           |           |   |          |          |                            |           |          |
| Offshore Logistics            | (150,813)                     | (130,102) | (118,968) | (40,079 )   | (66,101) | (1,638 ) | —                          | —         | —        |
| Offshore Production           | (149,198)                     | (137,914) | (72,905 ) | —   | —        | —        | 17,933                     | 7,672     | 10,341   |
| Conventional Tankers          | —                             | (6,583 )  | (6,680 )  | —   | (3,897 ) | —        | —                          | —         | —        |
|                               | (300,011)                     | (274,599) | (198,553) | (40,079 )   | (69,998) | (1,638 ) | 17,933                     | 7,672     | 10,341   |
| Teekay LNG                    |                               |           |           |   |          |          |                            |           |          |
| Liquefied Gas Carriers        | (80,084 )                     | (71,323 ) | (71,711 ) | —   | —        | —        | 62,307                     | 84,171    | 115,478  |
| Conventional Tankers          | (15,458 )                     | (20,930 ) | (22,416 ) | (38,976 )   | —        | —        | —                          | —         | —        |
|                               | (95,542 )                     | (92,253 ) | (94,127 ) | (38,976 )   | —        | —        | 62,307                     | 84,171    | 115,478  |
| Teekay Tankers <sup>(1)</sup> |                               |           |           |   |          |          |                            |           |          |
| Conventional Tankers          | (104,149)                     | (71,429 ) | (50,152 ) | (20,594 )   | 771      | 9,955    | 13,101                     | 14,411    | 5,228    |
| Teekay Parent                 |                               |           |           |   |          |          |                            |           |          |
| Offshore Production           | (70,855 )                     | (69,508 ) | (78,630 ) | (110 )  | (948 )   | 3,456    | (575 )                     | (12,196 ) | (1,357 ) |
| Conventional Tankers          | (1,717 )                      | (2,852 )  | (2,216 )  | (12,487 )   | —        | (502 )   | 5,089                      | 16,712    | 3,052    |
| Other                         | 449                           | 451       | 774       | —   | —        | —        | (1,838 )                   | (1,101 )  | (2,546 ) |

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|                          |           |           |           |           |          |        |          |          |          |
|--------------------------|-----------|-----------|-----------|-----------|----------|--------|----------|----------|----------|
|                          | (72,123 ) | (71,909 ) | (80,072 ) | (12,597 ) | (948 )   | 2,954  | 2,676    | 3,415    | (851 )   |
| Eliminations and other — | 690       | —         |           |           |          |        | (10,378) | (6,798 ) | (2,082 ) |
|                          | (571,825) | (509,500) | (422,904) | (112,246) | (70,175) | 11,271 | 85,639   | 102,871  | 128,114  |

Financial information for Teekay Tankers includes operations of the Explorer Spirit, formerly known as the SPT (1) Explorer and Navigator Spirit from December 18, 2015, the date Teekay Tankers acquired the vessels from Teekay Offshore.

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

|  | December<br>31, 2016 | December<br>31, 2015 |
|--|----------------------|----------------------|
|  | \$                   | \$                   |
| Teekay Offshore - Offshore Logistics   | 2,677,784            | 2,591,489            |
| Teekay Offshore - Offshore Production  | 2,672,100            | 2,717,193            |
| Teekay Offshore - Conventional Tankers | 4,818                | 63,900               |
| Teekay LNG - Liquefied Gas Carriers    | 3,957,088            | 3,550,396            |
| Teekay LNG - Conventional Tankers      | 193,553              | 360,527              |
| Teekay Tankers - Conventional Tankers  | 1,864,317            | 2,073,059            |
| Teekay Parent - Offshore Production    | 635,364              | 710,533              |
| Teekay Parent - Conventional Tankers   | 55,937               | 142,236              |
| Teekay Parent - Other                  | 13,208               | 17,256               |
| Cash and cash equivalents              | 567,994              | 678,392              |
| Other assets not allocated             | 287,138              | 301,586              |
| Eliminations                           | (114,549 )           | (145,319 )           |
| Consolidated total assets              | 12,814,752           | 13,061,248           |

The following table includes capital expenditures by segment for the periods presented in these financial statements.

|  | December<br>31, 2016 | December<br>31, 2015 |
|--|----------------------|----------------------|
|  | \$                   | \$                   |
| Teekay Offshore - Offshore Logistics   | 228,347              | 552,219              |
| Teekay Offshore - Offshore Production  | 66,234               | 120,160              |
| Teekay Offshore - Conventional Tankers | —                    | 97                   |
| Teekay LNG - Liquefied Gas Carriers    | 344,924              | 191,642              |
| Teekay LNG - Conventional Tankers      | 63                   | 327                  |
| Teekay Tankers - Conventional Tankers  | 9,226                | 848,250              |
| Teekay Parent - Offshore Production    | —                    | 57,778               |
| Teekay Parent - Conventional Tankers   | —                    | 92                   |
| Teekay Parent - Other                  | 88                   | 199                  |
|  | 648,882              | 1,770,764            |

## 3. Investments

## a) Teekay LNG – Bahrain LNG Joint Venture

In December 2015, Teekay LNG entered into an agreement with National Oil & Gas Authority (or Nogaholding), Samsung C&T (or Samsung) and Gulf Investment Corporation (or GIC) to form a joint venture, Bahrain LNG W.L.L. (or the Bahrain LNG Joint Venture), for the development of an LNG receiving and regasification terminal in Bahrain. The Bahrain LNG Joint Venture is a joint venture between Nogaholding (30%), Teekay LNG (30%), Samsung (16%) and GIC (24%). The project will include an offshore LNG receiving jetty and breakwater, an adjacent regasification platform, subsea gas pipelines from the platform to shore, an onshore gas receiving facility, and an onshore nitrogen production facility with a total LNG terminal capacity of 800 million standard cubic feet per day and will be owned and operated under a 20-year agreement commencing in early-2019 with an estimated fully-built up cost of approximately \$960.0 million, which is expected to be funded by the Bahrain LNG Joint Venture through a combination of equity capital and project-level debt through a consortium of regional and international banks. In



addition, Teekay LNG will supply a floating storage unit (or FSU) in connection with this project, which will be modified specifically from one of the Teekay LNG's nine M-type, Electronically Controlled, Gas Injection (or MEGI) LNG carrier newbuildings ordered from Daewoo Shipbuilding & Marine Engineering Co. (or DSME), through a 20-year time-charter contract with the Bahrain LNG Joint Venture.

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## b)Teekay Tankers – Principal Maritime

In August 2015, Teekay Tankers agreed to acquire 12 modern Suezmax tankers from Principal Maritime Tankers Corporation (or Principal Maritime). All 12 of the vessels were delivered in 2015 for a total purchase price of \$661.3 million, consisting of \$612.0 million in cash and approximately 7.2 million shares of Teekay Tankers' Class A common stock with a value of \$49.3 million. To finance the cash portion of the acquisition price, Teekay Tankers secured a \$397.2 million loan facility which matured in January 2016, and which was refinanced as part of a comprehensive Teekay Tankers refinancing in January 2016 (see Note 7). In addition, in August 2015 Teekay Tankers issued in a public offering and concurrent private placement approximately 13.6 million shares of its Class A common stock for net proceeds of \$90.6 million, including approximately 4.5 million shares which were issued to Teekay Parent. Teekay Tankers financed the remainder of the cash purchase price with existing liquidity.

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

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

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

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

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

|                                    |          |
|------------------------------------|----------|
| Total liabilities assumed          | (6,926 ) |
| Net assets acquired <sup>(3)</sup> | 45,638   |

The customer relationships and customer contracts are being amortized over weighted average amortization (1) periods of 10 years and 7.6 years, respectively. As at December 31, 2016, the gross carrying amount, accumulated amortization and net carrying amount were \$22.5 million, \$4.8 million and \$17.7 million, respectively.

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

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

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

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## d)Teekay Offshore – Logitel Offshore Holding AS

In August 2014, Teekay Offshore acquired 100% of the outstanding shares of Logitel Offshore Holding AS (or Logitel). The purchase price for the shares of Logitel consisted of \$4.0 million in cash paid at closing and a potential additional cash amount of \$27.6 million, subject to reductions of some or all of this potential additional amount if certain performance criteria were not met, primarily relating to the construction of the three UMS ordered from the COSCO (Nantong) Shipyard (or COSCO) in China (see Note 10).

Prior to the acquisition, Logitel secured a three-year fixed-rate charter contract, with Petroleo Brasileiro S.A. (or Petrobras) in Brazil for the first UMS, the Arendal Spirit, which delivered in February 2015 and commenced its contract with Petrobras in June 2015. During 2016 Teekay Offshore canceled the UMS construction contracts for its two remaining UMS newbuildings (see Note 10).

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

The following table summarizes the preliminary and final valuations of the Logitel assets and liabilities on the acquisition date. The estimates of fair values of the Logitel assets acquired and liabilities assumed by Teekay Offshore were finalized during the second quarter of 2015.

| (in thousands of U.S. Dollars)    | Preliminary<br>Valuation<br>August 11, 2014 | Adjustments<br>\$ | Final Valuation<br>August 11, 2014<br>\$ |
|-----------------------------------|---|-------------------|--|
| <b>ASSETS</b>                     |   |                   |  |
| Cash and cash equivalents         | 8,089                                       | —                 | 8,089                                    |
| Prepaid expenses                  | 640   | —                 | 640                                      |
| Advances on newbuilding contracts | 46,809                                      | (2,239 )          | 44,570                                   |
| Intangible assets                 | —   | 1,000             | 1,000                                    |
| Total assets acquired             | 55,538                                      | (1,239 )          | 54,299                                   |
| <b>LIABILITIES</b>                |   |                   |  |
| Accrued liabilities               | 4,098                                       | —                 | 4,098                                    |
| Long-term debt                    | 26,270                                      | 1,330             | 27,600                                   |
| Total liabilities assumed         | 30,368                                      | 1,330             | 31,698                                   |
| Net assets acquired               | 25,170                                      | (2,569 )          | 22,601                                   |
| Cash consideration                | 4,000                                       | —                 | 4,000                                    |
| Contingent consideration          | 21,170                                      | (2,569 )          | 18,601                                   |

Operating results of Logitel are reflected in the Company's consolidated financial statements commencing August 11, 2014, the effective date of acquisition. Pro forma revenues and net income if the acquisition of Logitel had occurred at the beginning of 2014 would not be materially different than actual operating results reported.

## e)Teekay LNG - Yamal LNG Joint Venture

In July 2014, Teekay LNG, through a new 50/50 joint venture (or the Yamal LNG Joint Venture) with China LNG Shipping (Holdings) Limited (or China LNG), ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia (or the Yamal LNG Project).

As of December 31, 2016, Teekay LNG had advanced \$146.7 million (December 31, 2015 - \$96.9 million). The advances bear interest at LIBOR plus 3.00% compounded semi-annually. As at December 31, 2016, the interest accrued on these advances was \$9.4 million (December 31, 2015 - \$4.8 million).

f)Teekay LNG - BG International Limited Joint Venture

In June 2014, Teekay LNG acquired from BG International Limited (or BG) (which was subsequently acquired by Shell) its ownership interests in four 174,000-cubic meter Tri-Fuel Diesel Electric LNG carrier newbuildings, which will be constructed by Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. in China for an estimated total fully built-up cost to the joint venture of approximately \$1.0 billion. Through this transaction, Teekay LNG has a 30% ownership interest in two LNG carrier newbuildings and a 20% ownership interest in the remaining two LNG carrier newbuildings (or collectively the BG Joint Venture). As compensation for Shell's ownership interest in these four LNG carrier newbuildings, Teekay LNG assumed Shell's obligation to provide the shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery date pursuant to a ship construction support agreement. Teekay LNG estimates it will incur approximately \$36.9 million of costs to provide these services, of which Shell has agreed to pay a fixed amount of \$20.3 million. Teekay LNG estimated that the fair value of the service obligation was \$33.3 million and the fair value of the amount due from Shell was \$16.5 million. As at December 31, 2016, the carrying value of the service obligation of \$22.6 million (December 31, 2015 - \$29.7 million) is included in both the current portion of in-process revenue contracts and in-process contracts and the carrying value of the receivable from Shell of \$10.9 million (December 31, 2015 - \$16.5 million) is included in both accounts receivable and other non-current assets in the Company's consolidated balance sheets.

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## g)Teekay Offshore - ALP Maritime Services B.V.

In March 2014, Teekay Offshore acquired 100% of the shares of ALP Maritime Services B.V. (or ALP), a Netherlands-based provider of long-distance ocean towage and offshore installation services to the global offshore oil and gas industry. Concurrently with this transaction, Teekay Offshore and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four state-of-the-art SX-157 Ulstein Design ultra-long-distance towing and anchor handling vessel newbuildings.

Teekay Offshore acquired ALP for a purchase price of \$2.6 million, which was paid in cash, and also entered into an arrangement to pay additional compensation to three former shareholders of ALP if certain requirements are satisfied. This contingent compensation consists of \$2.4 million, which is payable upon the delivery and employment of ALP's four newbuildings and a further amount of up to \$2.6 million, which is payable if ALP's annual operating results from 2017 to 2021 meet certain targets. Teekay Offshore has the option to pay up to 50% of this compensation through the issuance of common units of Teekay Offshore. Each of the contingent compensation amounts are payable only if the three shareholders are employed by ALP at the time the performance conditions are met. For the year ended December 31, 2016, compensation cost was \$0.7 million and was recorded in general and administrative expenses in the Company's consolidated statements of income (December 31, 2015 - \$0.7 million, December 31, 2014 - \$0.5 million). Teekay Offshore also incurred a \$1.0 million fee to a third party associated with the acquisition of ALP in 2014 for assistance with the acquisition, which has been recognized in general and administrative expenses during 2014.

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

The following table summarizes the finalized estimates of fair values of the ALP assets acquired and liabilities assumed by Teekay Offshore on the acquisition date.

|                                   | As at<br>March<br>(in thousands of U.S. Dollars) 14,<br>2014<br>\$ |
|-----------------------------------|--|
| <b>ASSETS</b>                     |  |
| Cash and cash equivalents         | 294  |
| Other current assets              | 404  |
| Advances on newbuilding contracts | 164  |
| Other assets - long-term          | 395  |
| Goodwill                          | 2,032  |
| Total assets acquired             | 3,289  |
| <b>LIABILITIES</b>                |  |
| Current liabilities               | 387  |
| Other long-term liabilities       | 286  |
| Total liabilities assumed         | 673  |
| Net assets acquired               | 2,616  |
| Consideration                     | 2,616  |

The goodwill recognized in connection with the ALP acquisition is attributable primarily to the assembled workforce of ALP, including their experience, skills and abilities. Operating results of ALP are reflected in the Company's

consolidated financial statements commencing March 14, 2014, the effective date of the acquisition. On a pro forma basis for the Company for the years ended December 31, 2014 and 2013, there would be no material changes to revenues and net income giving effect to Teekay Offshore's acquisition of ALP as if it had taken place on January 1, 2014.

h) Tanker Investments Ltd.

In January 2014, Teekay and Teekay Tankers formed Tanker Investments Ltd. (or TIL), which seeks to opportunistically acquire, operate and sell modern second-hand tankers to benefit from an expected recovery in the tanker market. In connection with TIL's formation, Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase in the aggregate up to 1.5 million shares of common stock of TIL (see Note 14). The stock purchase warrants are derivative assets for accounting purposes which had an aggregate value of \$0.6 million as at December 31, 2016 (2015 - \$10.3 million). Teekay also received one Series A-1 preferred share and Teekay Tankers received one Series A-2 preferred share, each of which entitles the holder to elect one board member of TIL. The preferred shares do not give the holder a right to any dividends or distributions of TIL. The Company accounts for its investment in TIL using the equity method. As of December 31, 2016, Teekay and Teekay Tankers ownership interest in TIL totaled 19.55% (2015 - 17.62%).

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## 4. Equity Financing Transactions of the Daughter Companies

During the years ended December 31, 2016, 2015, and 2014, the Company's publicly traded subsidiaries, Teekay Tankers, Teekay Offshore and Teekay LNG, completed the following public offerings and private placements of equity securities:

|   | Total<br>Proceeds<br>Received<br>\$ | Less:<br>Teekay<br>Corporation<br>Portion<br>\$ | Offering<br>Expenses<br>\$ | Net<br>Proceeds<br>Received<br>\$ |
|---|-------------------------------------|---|----------------------------|-----------------------------------|
| 2016  |                                     |   |                            |                                   |
| Teekay Offshore Preferred D Units Offering <sup>(1)</sup> | 100,000                             | (26,000 )                                       | (2,750 )                   | 71,250                            |
| Teekay Offshore Common Units Offering                     | 102,041                             | (2,041 )  | (2,550 )                   | 97,450                            |
| Teekay Offshore Continuous Offering Program               | 31,819                              | (636 )  | (792 )                     | 30,391                            |
| Teekay Offshore Private Placement <sup>(2)</sup>          | 24,874                              | (13,167 )                                       | —                          | 11,707                            |
| Teekay LNG Preferred A Units Offering                     | 125,000                             | —   | (4,293 )                   | 120,707                           |
| Teekay Tankers Continuous Offering Program                | 7,747                               | —   | (189 )                     | 7,558                             |
| 2015 <sup>(3)</sup>                                       |                                     |   |                            |                                   |
| Teekay Offshore Preferred B Units Offering                | 125,000                             | —   | (4,210 )                   | 120,790                           |
| Teekay Offshore Preferred C Units Offering                | 250,000                             | —   | (250 )                     | 249,750                           |
| Teekay Offshore Continuous Offering Program               | 3,551                               | (71 )   | (66 )                      | 3,414                             |
| Teekay LNG Continuous Offering Program                    | 36,274                              | (725 )  | (900 )                     | 34,649                            |
| Teekay Tankers Public Offering                            | 13,716                              | —   | (31 )                      | 13,685                            |
| Teekay Tankers Continuous Offering Program                | 94,595                              | —   | (2,155 )                   | 92,440                            |
| Teekay Tankers Private Placement                          | 109,907                             | —   | —                          | 109,907                           |
| 2014 <sup>(4)</sup>                                       |                                     |   |                            |                                   |
| Teekay Offshore Continuous Offering Program               | 7,784                               | (156 )  | (153 )                     | 7,475                             |
| Teekay Offshore Direct Equity Placement                   | 178,569                             | (3,571 )  | (75 )                      | 174,923                           |
| Teekay LNG Public Offering                                | 140,784                             | (2,816 )  | (299 )                     | 137,669                           |
| Teekay LNG Continuous Offering Program                    | 42,556                              | (851 )  | (901 )                     | 40,804                            |
| Teekay Tankers Public Offering                            | 116,000                             | (20,000 )                                       | (4,810 )                   | 91,190                            |

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

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

Net cash proceeds from the sale of these securities of \$71.3 million, which excludes Teekay's investment, was allocated on a relative fair value basis to the Series D Preferred Units (\$61.1 million), to the \$4.55 Warrants (\$7.0 million) and to the \$6.05 Warrants (\$3.1 million). The Warrants qualify as freestanding financial instruments and are



accounted for separately from the Series D Preferred Units. The Series D Preferred Units are presented in the Company's consolidated balance sheets as redeemable non-controlling interest in temporary equity which is above the equity section but below the liabilities section as they are not mandatorily redeemable and the prospect of a forced redemption paid with cash due to a change of control event is not presently probable. The Warrants are recorded as non-controlling interests in the Company's consolidated balance sheets.

In 2016, Teekay Offshore issued 4.7 million common units for a total value of \$24.9 million (including the general partner's 2% proportionate capital contribution of \$0.5 million) as a payment-in-kind for the distributions on Teekay Offshore's Series C-1 Cumulative Convertible Perpetual Preferred Units (or the Series C-1 Preferred Units) and Series D Preferred Units and Teekay Offshore's common units and general partner interest held by subsidiaries of Teekay. In June 2016, Teekay Offshore agreed with Teekay that, until the Teekay Offshore's Norwegian Kroner (2) bonds maturing in 2018 have been repaid, all cash distributions (other than with respect to incentive distribution rights) to be paid by Teekay Offshore to Teekay or its affiliates, including Teekay Offshore's general partner, will instead be paid in Teekay Offshore common units or from the proceeds of the sale of common units. Teekay Offshore issued Teekay 2.5 million common units (including the general partner's 2% proportionate capital contribution) as a payment-in-kind for the distribution on Teekay Offshore's Series D Preferred Units, common units and general partner interest held by Teekay and its subsidiaries.

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In 2015, in addition to the issuances of equity to third parties noted in the table above, Teekay purchased \$30.0 million or 4.5 million shares of Class A common stock of Teekay Tankers for Teekay Tankers to partially finance the acquisition of 12 modern Suezmax tankers from Principal Maritime (see Note 3b), \$300.0 million or 14.4 million common units of Teekay Offshore for Teekay Offshore to partially finance the July 1, 2015 acquisition of the Petrojarl Knarr FPSO from Teekay, and \$45.5 million or 6.5 million shares of Class B common stock of Teekay Tankers to finance the acquisition of SPT (see Note 3c). These increases in Teekay's ownership interests in Teekay Tankers and Teekay Offshore have been accounted for as equity transactions. Therefore, no gains or losses were recognized in the Company's consolidated statements of income as a result of these purchases. However, the carrying amount of the non-controlling interests' share of Teekay Offshore and Teekay Tankers increased by an aggregate of \$168.1 million and retained earnings decreased by \$168.1 million to reflect the increase in Teekay's ownership interest in Teekay Offshore and Teekay Tankers and the increase in the carrying value of Teekay Offshore's and Teekay Tankers' total equity. This adjustment to non-controlling interest and retained earnings was primarily the result of Teekay Offshore's 14.4 million common units being issued to Teekay at fair value, which was significantly greater than the carrying value.

In August 2014, Teekay Tankers purchased from Teekay a 50% interest in Teekay Tanker Operations Ltd. (or TTOL), which owns conventional tanker commercial management and technical management operations, including the direct ownership in three commercially managed tanker pools, for an aggregate price of approximately \$23.5 million, including net working capital. As consideration for this acquisition, Teekay Tankers issued to Teekay 4.2 million Class B common shares. The 4.2 million Class B common shares had an approximate aggregate value of \$15.6 million, or \$3.70 per share, when the purchase price was agreed to between the parties and an aggregate value of \$17.0 million, or \$4.03 per share, on the acquisition closing date. The purchase price, for accounting purposes, is based upon the value of the Class B common shares on the acquisition closing date. In addition, Teekay Tankers reimbursed Teekay for \$6.5 million of working capital it assumed from Teekay in connection with the purchase. The book value of the assets acquired, including working capital, was \$16.9 million on the date of acquisition.

As a result of the public offerings and equity placements of Teekay Tankers, Teekay Offshore and Teekay LNG, the Company recorded increases (decreases) to retained earnings of \$9.7 million (2016), \$(152.7) million (2015) and \$68.4 million (2014). These amounts represent Teekay's dilution gains (losses) from the issuance of units and shares by these consolidated subsidiaries.

## 5. Goodwill, Intangible Assets and In-Process Revenue Contracts

## Goodwill

The carrying amount of goodwill for the years ended December 31, 2016 and 2015, for the Company's reportable segments are as follows:

|  | Teekay<br>Offshore<br>-<br>Offshore<br>Logistics<br>Segment<br>\$ | Teekay<br>LNG -<br>Liquefied<br>Gas<br>Segment<br>\$ | Conventional<br>Tanker<br>Segment<br>\$ | Total<br>\$ |
|--|---|--|---|-------------|
| Balance as of December 31, 2015 and 2014 | 132,940   | 35,631   | —                                       | 168,571     |
| Goodwill acquired                        | —   | —  | 8,059                                   | 8,059       |
| Balance as of December 31, 2016          | 132,940   | 35,631   | 8,059                                   | 176,630     |

In July 2015, Teekay Tankers acquired SPT. The estimates of fair value were finalized in the first quarter of 2016 and resulted in an increase in goodwill of \$8.1 million from preliminary estimates (see Note 3c).

Intangible Assets

As at December 31, 2016, the Company's intangible assets consisted of:

|                         | Gross<br>Carrying<br>Amount<br>\$ | Accumulated<br>Amortization<br>\$ | Net<br>Carrying<br>Amount<br>\$ |
|-------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Customer contracts      | 317,222                           | (245,705 )                        | 71,517                          |
| Customer relationships  | 22,500                            | (4,842 )                          | 17,658                          |
| Other intangible assets | 1,000                             | (1,000 )                          | —                               |
|                         | 340,722                           | (251,547 )                        | 89,175                          |

As at December 31, 2015, the Company's intangible assets consisted of:

|                         | Gross<br>Carrying<br>Amount<br>\$ | Accumulated<br>Amortization<br>\$ | Net<br>Carrying<br>Amount<br>\$ |
|-------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Customer contracts      | 316,684                           | (234,894 )                        | 81,790                          |
| Customer relationships  | 30,879                            | (1,260 )                          | 29,619                          |
| Other intangible assets | 1,000                             | (500 )                            | 500                             |
|                         | 348,563                           | (236,654 )                        | 111,909                         |

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In July 2015, as part of Teekay Tankers' acquisition of SPT (see Note 3c), Teekay Tankers ascribed a value of \$30.9 million to the customer relationships assumed as part of the acquisition of the STS transfer business. The Company is amortizing the customer relationships over a period of 10 years. The estimates of fair value were finalized in the first quarter of 2016 and resulted in a decrease in intangible assets by \$8.4 million from preliminary estimates. This change did not have a material impact to the Company's consolidated statement of income for the year ended December 31, 2016. Amortization expense relating to this acquisition for the years ended December 31, 2016 and 2015 were \$3.6 million and 1.3 million, respectively, which is included in depreciation and amortization.

Aggregate amortization expense of intangible assets for the year ended December 31, 2016, was \$14.9 million (2015 - \$13.6 million, 2014 - \$13.2 million), which is included in depreciation and amortization. Amortization of intangible assets following 2016 is expected to be \$13.2 million (2017), \$12.0 million (2018), \$11.2 million (2019), \$10.9 million (2020), \$10.7 million (2021) and \$31.3 million (thereafter).

**In-Process Revenue Contracts**

As part of the Company's acquisition of FPSO units from Sevan Marine ASA (or Sevan) and its previous acquisition of Petrojarl ASA (subsequently renamed Teekay Petrojarl AS, or Teekay Petrojarl), and Teekay LNG's acquisition of BG's ownership interests in four LNG carrier newbuildings, the Company assumed certain FPSO contracts and time-charter-out contracts with terms that were less favorable than the then prevailing market terms, and a service obligation for shipbuilding supervision and crew training services for the four LNG carrier newbuildings. At the time of the acquisitions, the Company recognized liabilities based on the estimated fair value of these contracts and service obligations. The Company is amortizing these liabilities over the estimated remaining terms of their associated contracts on a weighted basis, based on the projected revenue to be earned under the contracts.

Amortization of in-process revenue contracts for the year ended December 31, 2016 was \$28.1 million (2015 - \$30.1 million, 2014 - \$40.9 million), which is included in revenues on the consolidated statements of income. Amortization of in-process revenue contracts following 2016 is expected to be \$34.5 million (2017), \$22.7 million (2018), \$14.3 million (2019), \$13.8 million (2020), \$13.8 million (2021) and \$23.6 million (thereafter).

**6. Accrued Liabilities and Other and Other Long-Term Liabilities****Accrued Liabilities and Other**

|  | December<br>31, 2016 | December<br>31, 2015 |
|--|----------------------|----------------------|
|  | \$                   | \$                   |
| Voyage and vessel expenses                       | 177,868              | 168,120              |
| Interest   | 64,362               | 66,110               |
| Payroll and benefits and other                   | 70,904               | 88,239               |
| Deferred revenues and gains - current            | 78,766               | 76,883               |
| Loans from affiliates                            | 11,785               | 12,426               |
| Liabilities associated with assets held for sale | —                    | 500                  |
|  | 403,685              | 412,278              |

**Other Long-Term Liabilities**

|                             | December<br>31, 2016 | December<br>31, 2015 |
|-----------------------------|----------------------|----------------------|
|                             | \$                   | \$                   |
| Deferred revenues and gains | 210,434              | 248,984              |
| Guarantee liability         | 24,373               | 26,467               |
| Asset retirement obligation | 44,675               | 25,484               |
| Pension liabilities         | 8,599                | 14,953               |

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|   |         |         |
|---|---------|---------|
| Contingent consideration liability                | —       | 6,225   |
| Unrecognized tax benefits and deferred income tax | 24,340  | 21,967  |
| Other   | 20,815  | 8,298   |
|   | 333,236 | 352,378 |

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## 7. Long-Term Debt

|   | December<br>31, 2016 | December<br>31, 2015 |
|---|----------------------|----------------------|
|   | \$                   | \$                   |
| Revolving Credit Facilities                             | 1,119,808            | 1,500,848            |
| Senior Notes (8.5%) due January 15, 2020                | 592,657              | 592,657              |
| Norwegian Kroner-denominated Bonds due through May 2021 | 628,257              | 621,957              |
| U.S. Dollar-denominated Term Loans due through 2028     | 3,702,997            | 4,020,665            |
| U.S. Dollar Bonds due through 2024                      | 466,680              | 502,449              |
| Euro-denominated Term Loans due through 2023            | 219,733              | 241,798              |
| Total principal   | 6,730,132            | 7,480,374            |
| Less unamortized discount and debt issuance costs       | (90,586 )            | (96,288 )            |
| Total debt  | 6,639,546            | 7,384,086            |
| Less current portion                                    | (998,591 )           | (1,106,104)          |
| Long-term portion                                       | 5,640,955            | 6,277,982            |

As of December 31, 2016, the Company had 13 revolving credit facilities (or the Revolvers) available, which, as at such date, provided for aggregate borrowings of up to \$1.6 billion, of which \$0.5 billion was undrawn. Interest payments are based on LIBOR plus margins; at December 31, 2016 and December 31, 2015, the margins ranged between 0.45% and 4.00% and between 0.45% and 3.95%, respectively. The aggregate amount available under the Revolvers is scheduled to decrease by \$482.4 million (2017), \$669.7 million (2018), \$43.0 million (2019), \$0 million (2020), and \$369.1 million (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 68 of the Company's vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts. Included in other related security are 38.2 million common units in Teekay Offshore, 25.2 million common units in Teekay LNG and 16.8 million Class A common shares in Teekay Tankers, which secure a \$150 million credit facility.

The Company's 8.5% senior unsecured notes are due January 15, 2020 with an original aggregate principal amount of \$450 million (or the Original Notes). The Original Notes issued on January 27, 2010 were sold at a price equal to 99.181% of par. In November 2015, the Company issued an aggregate principal amount of \$200 million of the Company's 8.5% senior unsecured notes due on January 15, 2020 (or the Notes) at 99.01% of face value, plus accrued interest from July 15, 2015. The Notes are an additional issuance of the Company's Original Notes (cumulatively referred to as the 8.5% Notes). The Notes were issued under the same indenture governing the Original Notes, and are fungible with the Original Notes. The discount on the 8.5% Notes is accreted through the maturity date of the notes using the effective interest rate of 8.67% per year.

The Company capitalized aggregate issuance costs of \$13.3 million which are amortized to interest expense over the term of the 8.5% Notes. As of December 31, 2016, the unamortized balance of the capitalized issuance cost was \$5.7 million which is recorded in long-term debt in the consolidated balance sheet. The 8.5% Notes rank equally in right of payment with all of Teekay's existing and future senior unsecured debt and senior to any future subordinated debt of Teekay. The 8.5% Notes are not guaranteed by any of Teekay's subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities of its subsidiaries.

The Company may redeem the 8.5% Notes in whole or in part at any time before their maturity date at a redemption price equal to the greater of (i) 100% of the principal amount of the 8.5% Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 8.5% Notes to be redeemed

(excluding accrued interest), discounted to the redemption date on a semi-annual basis, at the treasury yield plus 50 basis points, plus accrued and unpaid interest to the redemption date.

Teekay Offshore and Teekay LNG have a total of NOK 5.4 billion in senior unsecured bonds in the Norwegian bond market at December 31, 2016 that mature through October 2021. As at December 31, 2016, the total carrying amount of the senior unsecured bonds was \$628.3 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin, which ranges from 3.70% to 6.00%. The Company entered into cross currency rate swaps to swap all interest and principal payments of the bonds into U.S. Dollars, with the interest payments fixed at rates ranging from 5.92% to 8.84%, and the transfer of principal amount fixed at \$844.0 million upon maturity in exchange for NOK 5.4 billion (see Note 14).

In June 2016 Teekay Offshore amended certain of the bond agreements to extend the maturity dates of the senior unsecured bonds. The maturity date for bonds in an aggregate principal amount of NOK 600 million was extended to November 2018, with two interim installments of NOK 180 million. One installment was paid in October 2016 and the other is due in October 2017. The maturity date for bonds in an aggregate principal amount of NOK 800 million was extended to December 2018, with one interim installment of NOK 160 million due in January 2018 and the remaining balance of NOK 640 million repayable in December 2018 at 103% of the principal amount. In October 2016, Teekay LNG issued NOK 900 million unsecured bonds that mature in October 2021 which amount is equivalent to approximately \$110 million. In connection with the new bond issuance, Teekay LNG repurchased a portion of its NOK bonds maturing in May 2017, at a price equal to 101.50% of the principal amount of the repurchased bond of NOK 292 million (\$36.5 million) for a total purchase price of NOK 296 million.

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As of December 31, 2016, the Company had 23 U.S. Dollar-denominated term loans outstanding, which totaled \$3.7 billion in aggregate principal amount (December 31, 2015 – \$4.0 billion). Certain of the term loans with a total outstanding principal balance of \$58.3 million as at December 31, 2016 (December 31, 2015 – \$48.6 million) bear interest at a weighted-average fixed rate of 2.9% (December 31, 2015 – 4.0%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At December 31, 2016 and December 31, 2015, the margins ranged between 0.30% and 3.5%. The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and 20 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 46 (December 31, 2015 – 67) of the Company's vessels, together with certain other security. In addition, at December 31, 2016, all but \$56.2 million (December 31, 2015 – \$64.6 million) of the outstanding term loans were guaranteed by Teekay or one of its subsidiaries.

During May 2014, Teekay Offshore issued \$300 million in five-year senior unsecured bonds that mature in July 2019 in the U.S. bond market. As of December 31, 2016, the carrying amount of the bonds was \$300 million. The bonds are listed on the New York Stock Exchange. The interest payments on the bonds are fixed at a rate of 6.0%.

In September 2013 and November 2013, Teekay Offshore issued \$174.2 million in aggregate of ten-year senior bonds that mature in December 2023 and that were issued in a U.S. private placement to finance the Bossa Nova Spirit and the Sertanejo Spirit shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security. Teekay Offshore makes semi-annual repayments on the bonds and as of December 31, 2016, the carrying amount of the bonds was \$143.3 million.

In February 2015, Teekay Offshore issued \$30.0 million in senior bonds that mature in June 2024 in a U.S. private placement. As of December 31, 2016, the carrying amount of the bonds was \$23.4 million. The interest payments on the bonds are fixed at a rate of 4.27%. The bonds are collateralized by a first-priority mortgage on the Dampier Spirit FSO unit to which the bonds relate, together with other related security and are guaranteed by two subsidiaries of Teekay Offshore.

Teekay LNG has two Euro-denominated term loans outstanding, which, as at December 31, 2016, totaled 208.9 million Euros (\$219.7 million) (December 31, 2015 – 222.7 million Euros (\$241.8 million)). Teekay LNG is repaying the loans with funds generated by two Euro-denominated, long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus a margin. At December 31, 2016 and December 31, 2015, the margins ranged between 0.6% and 2.25%. The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023, are collateralized by first-priority mortgages on two of Teekay LNG's vessels, together with certain other security, and are guaranteed by Teekay LNG and one of its subsidiaries.

Both Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Company's NOK-denominated bonds, the Company's Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Company's cross currency swaps, the Company recognized a foreign exchange loss during 2016 of \$6.5 million (2015 – \$2.2 million loss, 2014 – \$13.4 million gain).

The weighted-average effective interest rate on the Company's aggregate long-term debt as at December 31, 2016 was 4.0% (December 31, 2015 – 3.4%). This rate does not include the effect of the Company's interest rate swap agreements (see Note 14).



Teekay Corporation has guaranteed obligations pursuant to credit facilities of Teekay Tankers and Teekay Offshore. As at December 31, 2016, the aggregate outstanding balance on such credit facilities was \$150.0 million and \$364.0 million, respectively.

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to December 31, 2016, including the impact of the debt refinancing by Teekay Offshore in March 2017, are \$1.0 billion (2017), \$1.7 billion (2018), \$1.0 billion (2019), \$1.1 billion (2020), \$0.9 billion (2021) and \$1.0 billion (thereafter). The Company and its consolidated subsidiaries are actively pursuing financing and refinancing alternatives for amounts due in 2017 (see Note 15).

Among other matters, the Company's long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and 11 loan agreements require the maintenance of vessel market value to loan ratios. As at December 31, 2016, these ratios ranged from 116.6% to 433.2% compared to their minimum required ratios of 105% to 125%. The vessel values used in these ratios are the appraised values prepared by the Company based on second hand sale and purchase market data. Changes in the LNG/LPG, conventional tanker, FPSO, shuttle tanker, towage and UMS markets could negatively affect the Company's compliance with these ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at December 31, 2016 and December 31, 2015, this amount was \$50 million for the Company, excluding Teekay Offshore and Teekay LNG. Most of the loan agreements also require that the Company maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity of 5.0% of total debt for either Teekay Parent, Teekay Offshore or Teekay Tankers, which as at December 31, 2016, such amounts were \$63.8 million, \$159.1 million and \$46.7 million, respectively. In addition, certain loan agreements require Teekay LNG to maintain a minimum level of tangible net worth and liquidity, and not exceed a maximum level of financial leverage. As at December 31, 2016, the Company was in compliance with all covenants under its credit facilities and other long-term debt. Certain loan agreements that have been entered into by subsidiaries of the Company require these subsidiaries to maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity and/or a minimum net debt to capitalization ratio. The effect of such agreements is that these subsidiaries are restricted in their ability to transfer a certain amount of their net assets to Teekay, either through loans or dividends/distributions. As at December 31, 2016, Teekay Parent's proportionate share of the restricted net assets of the Company's subsidiaries amounted to \$209.0 million.

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8. Operating and Direct Financing Leases

Charters-in

As at December 31, 2016, minimum commitments to be incurred by the Company under vessel operating leases by which the Company charters-in vessels were approximately \$185.0 million, comprised of \$105.7 million (2017), \$44.1 million (2018), \$25.5 million (2019), \$8.3 million (2020), and \$1.4 million (2021). The Company recognizes the expense from these charters, which is included in time-charter hire expense, on a straight-line basis over the firm period of the charters.

Charters-out

Time charters and bareboat charters of the Company's vessels to third parties (except as noted below) are accounted for as operating leases. Certain of these charters provide the charterer with the option to acquire the vessel or the option to extend the charter. As at December 31, 2016, minimum scheduled future revenues to be received by the Company on time charters and bareboat charters then in place were approximately \$8.0 billion, comprised of \$1.3 billion (2017), \$1.2 billion (2018), \$1.1 billion (2019), \$1.0 billion (2020), \$0.7 billion (2021) and \$2.7 billion (thereafter). The minimum scheduled future revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after December 31, 2016, revenue from unexercised option periods of contracts that existed on December 31, 2016, revenue from vessels in the Company's equity accounted investments, or variable or contingent revenues. In addition, minimum scheduled future operating lease revenues presented in this paragraph have been reduced by estimated off-hire time for any periodic maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

The carrying amount of the vessels accounted for as operating leases at December 31, 2016, was \$6.6 billion (2015 - \$7.1 billion). The cost and accumulated depreciation of the vessels employed on operating leases as at December 31, 2016 were \$9.1 billion (2015 - \$9.6 billion) and \$2.5 billion (2015 - \$2.5 billion), respectively.

Operating Lease Obligations

Teekay Tangguh Joint Venture

As at December 31, 2016, the Teekay BLT Corporation (or the Teekay Tangguh Joint Venture) was a party to operating leases (or Head Leases) whereby it is leasing its two LNG carriers (or the Tangguh LNG Carriers) to a third party company. The Teekay Tangguh Joint Venture is then leasing back the LNG carriers from the same third party company (or the Subleases). Under the terms of these leases, the third party company claims tax depreciation on the capital expenditures it incurred to lease the vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the Teekay Tangguh Joint Venture. Lease payments under the Subleases are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lease payments are increased or decreased under the Sublease to maintain the agreed after-tax margin. The Teekay Tangguh Joint Venture's carrying amounts of this tax indemnification guarantee as at December 31, 2016 and December 31, 2015 were \$7.5 million and \$8.0 million, respectively, and are included as part of other long-term liabilities in the consolidated balance sheets of the Company. The tax indemnification is for the duration of the lease contract with the third party plus the years it would take for the lease payments to be statute barred, and ends in 2033. Although there is no maximum potential amount of future payments, the Teekay Tangguh Joint Venture may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, the Teekay Tangguh Joint Venture will be required to make termination payments to the third party company sufficient to repay the third party company's investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation. The Head Leases and the Subleases have 20 year terms and are classified as operating leases. The Head Lease and the Sublease for the two Tangguh LNG Carriers commenced in November 2008 and March 2009, respectively.

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As at December 31, 2016, the total estimated future minimum rental payments to be received and paid under the lease contracts are as follows:

| Year       | Head<br>Lease<br>Receipts<br>(1) | Sublease<br>Payments <sup>(1)(2)</sup><br>\$ |
|------------|----------------------------------|--|
|            | \$                               |  |
| 2017       | 21,242                           | 24,113                                       |
| 2018       | 21,242                           | 24,113                                       |
| 2019       | 21,242                           | 24,113                                       |
| 2020       | 21,242                           | 24,113                                       |
| 2021       | 21,242                           | 24,113                                       |
| Thereafter | 154,095                          | 174,959                                      |
| Total      | 260,305                          | 295,524                                      |

- The Head Leases are fixed-rate operating leases while the Subleases have a small variable-rate component. As at December 31, 2016, the Teekay Tangguh Joint Venture had received \$250.0 million of aggregate Head Lease receipts and had paid \$187.9 million of aggregate Sublease payments. The portion of the Head Lease receipts that (1) has not been recognized into earnings, is deferred and amortized on a straight line basis over the lease terms and, as at December 31, 2016, \$3.7 million and \$36.7 million of Head Lease receipts had been deferred and included in unearned revenue and other long-term liabilities, respectively, in the Company's consolidated balance sheets.
- (2) The amount of payments under the Subleases is updated annually to reflect any changes in the lease payments due to changes in tax law.

## Net Investment in Direct Financing Leases

The time charters for the two Tangguh LNG carriers, one FSO unit of Teekay Offshore and certain VOC equipment are accounted for as direct financing leases. In addition, in September and November 2013, Teekay LNG acquired two 155,900-cubic meter LNG carriers (or Awilco LNG Carriers) from Norway-based Awilco LNG ASA (or Awilco) and chartered them back to Awilco on a five- and four-year fixed-rate bareboat charter contract (plus a one-year extension option), respectively, with Awilco holding a fixed-price purchase obligation at the end of the charter. The bareboat charters with Awilco are accounted for as direct financing leases. The purchase price of each vessel was \$205.0 million less a \$51.0 million upfront prepayment of charter hire by Awilco (inclusive of a \$1.0 million upfront fee), which is in addition to the daily bareboat charter rate. The following table lists the components of the net investments in direct financing leases for the five vessels and VOC equipment:

|  | December<br>31, 2016<br>\$ | December<br>31, 2015<br>\$ |
|--|----------------------------|----------------------------|
| Total minimum lease payments to be received                | 777,334                    | 855,655                    |
| Estimated unguaranteed residual value of leased properties | 203,465                    | 203,465                    |
| Initial direct costs and other                             | 393                        | 428                        |
| Less unearned revenue                                      | (320,598)                  | (375,419)                  |
| Total  | 660,594                    | 684,129                    |
| Less current portion                                       | (154,759)                  | (26,542)                   |
| Long-term portion  | 505,835                    | 657,587                    |

As at December 31, 2016, minimum lease payments to be received by the Company in each of the next five years following 2016 were \$206.2 million (2017), \$175.0 million (2018), \$40.4 million (2019), \$40.4 million (2020), \$40.4

million (2021) and \$1.9 million (thereafter). The FSO contract is scheduled to expire in 2017, the LNG time charters are both scheduled to expire in 2029 and the two LNG carriers under the Awilco LNG carrier leases expire in 2017 and 2018.

#### 9. Capital Lease Obligations

##### Capital Lease Obligations

|   | December<br>31, 2016 | December<br>31, 2015 |
|---|----------------------|----------------------|
|   | \$                   | \$                   |
| LNG Carriers                              | 338,257              | —                    |
| Suezmax Tankers                           | 54,582               | 59,127               |
| Less current portion                      | (40,353 )            | (4,546 )             |
| Long-term obligations under capital lease | 352,486              | 54,581               |

LNG Carriers. As at December 31, 2016, Teekay LNG was a party to capital leases on two LNG carriers, the Creole Spirit and Oak Spirit. Upon delivery of the Creole Spirit in February 2016 and the Oak Spirit in July 2016, Teekay LNG sold these vessels to a third party and leased them back under 10-year bareboat charter contracts ending in 2026. The bareboat charter contracts are fixed-rate capital leases with a fixed-

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price purchase obligation at the end of the lease terms. At inception of these leases, the weighted-average interest rate implicit in these leases was 5.5%. Teekay LNG guarantees the obligations of the bareboat charter contracts. In addition, the guarantee agreements require Teekay LNG to maintain minimum levels of tangible net worth and aggregate liquidity, and not to exceed a maximum amount of leverage. In December 2016, Teekay LNG entered into a \$682.8 million sale-leaseback agreement with ICBC Leasing for four of Teekay LNG's LNG carrier newbuildings equipped with MEGI twin engines, delivering in 2017 and 2018, and at such dates, ICBC Financial Leasing Co., Ltd. will take delivery and charter each respective vessel back to Teekay LNG.

As at December 31, 2016, the remaining commitments under the two capital leases for the Creole Spirit and the Oak Spirit, including the related purchase obligations, approximated \$478.1 million, including imputed interest of \$139.8 million, repayable from 2017 through 2026, as indicated below:

| Year       | Commitment |
|------------|------------|
| 2017       | \$ 30,065  |
| 2018       | \$ 30,065  |
| 2019       | \$ 30,065  |
| 2020       | \$ 30,147  |
| 2021       | \$ 30,065  |
| Thereafter | \$ 327,686 |

Suezmax Tankers. As at December 31, 2016, Teekay LNG was a party to capital leases on two Suezmax tankers. Under these capital leases, the owner has the option to require Teekay LNG to purchase the two vessels. The charterer, who is also the owner, also has the option to cancel the charter contracts and the cancellation options are first exercisable in October 2017 and July 2018, respectively.

The amounts in the table below assume the owner will not exercise its options to require Teekay LNG to purchase either of the two remaining vessels, but rather it assumes the owner will cancel the charter contracts when the cancellation right is first exercisable (in October 2017 and July 2018, respectively), and sell the vessels to a third party, upon which the lease obligations will be extinguished. At the inception of these leases, the weighted-average interest rate implicit in these leases was 5.5%. These capital leases are variable-rate capital leases. However, any change in the lease payments resulting from changes in interest rates is offset by a corresponding change in the charter hire payments received by Teekay LNG.

As at December 31, 2016, the remaining commitments under the two capital leases for Suezmax Tankers, including the related purchase obligations, approximated \$58.2 million, including imputed interest of \$3.6 million, repayable from 2017 through 2018, as indicated below:

| Year | Commitment |
|------|------------|
| 2017 | \$ 30,953  |
| 2018 | \$ 27,296  |

The Company's capital leases do not contain financial or restrictive covenants other than those relating to operation and maintenance of the vessels.

## 10. Fair Value Measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instruments and other non-financial assets.

## Explanation of Responses:

Cash and cash equivalents, restricted cash and marketable securities - The fair value of the Company's cash and cash equivalents restricted cash, and marketable securities approximates their carrying amounts reported in the accompanying consolidated balance sheets.

Vessels and equipment and assets held for sale – The estimated fair value of the Company's vessels and equipment and assets held for sale was determined based on discounted cash flows or appraised values. In cases where an active second hand sale and purchase market does not exist, the Company uses a discounted cash flow approach to estimate the fair value of an impaired vessel. In cases where an active second hand sale and purchase market exists, an appraised value is generally the amount the Company would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Company. Other assets held for sale include working capital balances and the fair value of such amounts generally approximate their carrying value.

Long-term investments - The estimated fair value of the Company's long-term investments was determined based on discounted cash flows or appraised values. As an active second hand sale and purchase market exists, the appraised value is the amount the Company would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Company. Long-term investments include variable-rate long-term debt balances and the fair value of such amounts is estimated using discounted cash flow analyses, based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Company. Long-term investments also include working capital balances and the fair value of such amounts generally approximate their carrying value.

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Loans to equity-accounted investees and joint venture partners – The fair value of the Company’s loans to joint ventures and joint venture partners approximates their carrying amounts reported in the accompanying consolidated balance sheets.

Long-term receivable included in accounts receivable and other assets – The fair values of the Company’s long-term loan receivable is estimated using discounted cash flow analysis based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the counterparty.

Long-term debt – The fair value of the Company’s fixed-rate and variable-rate long-term debt is either based on quoted market prices or estimated using discounted cash flow analyses, based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Company. Alternatively, if the fixed-rate and variable-rate long-term debt is held for sale the fair value is based on the estimated sales price.

Derivative instruments – The fair value of the Company’s derivative instruments is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account, as applicable, fixed interest rates on interest rate swaps, current interest rates, foreign exchange rates, and the current credit worthiness of both the Company and the derivative counterparties. The estimated amount is the present value of future cash flows. The Company transacts all of its derivative instruments through investment-grade rated financial institutions at the time of the transaction and requires no collateral from these institutions. Given the current volatility in the credit markets, it is reasonably possible that the amounts recorded as derivative assets and liabilities could vary by material amounts in the near term.

The Company categorizes its fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1.Observable inputs such as quoted prices in active markets;

Level 2.Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3.Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.



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

|  |                            | December 31, 2016                    |                                 | December 31, 2015                    |                                 |
|--|----------------------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
|  | Fair Value Hierarchy Level | Carrying Amount Asset (Liability) \$ | Fair Value Asset (Liability) \$ | Carrying Amount Asset (Liability) \$ | Fair Value Asset (Liability) \$ |
| Recurring  |                            |                                      |                                 |                                      |                                 |
| Cash and cash equivalents, restricted cash, and marketable securities                | Level 1                    | 805,567                              | 805,567                         | 855,107                              | 855,107                         |
| Derivative instruments (note 14)   |                            |                                      |                                 |                                      |                                 |
| Interest rate swap agreements - assets <sup>(1)</sup>                                | Level 2                    | 7,943                                | 7,943                           | 6,136                                | 6,136                           |
| Interest rate swap agreements - liabilities <sup>(1)</sup>                           | Level 2                    | (302,935)                            | (302,935)                       | (370,952)                            | (370,952)                       |
| Cross currency interest swap agreement <sup>(1)</sup>                                | Level 2                    | (237,165)                            | (237,165)                       | (312,110)                            | (312,110)                       |
| Foreign currency contracts   | Level 2                    | (2,993)                              | (2,993)                         | (18,826)                             | (18,826)                        |
| Stock purchase warrants (note 14)  | Level 3                    | 575                                  | 575                             | 10,328                               | 10,328                          |
| Time-charter swap agreement  | Level 3                    | 208                                  | 208                             | —                                    | —                               |
| Logitel contingent consideration (see below)   | Level 3                    | —                                    | —                               | (14,830)                             | (14,830)                        |
| Non-recurring  |                            |                                      |                                 |                                      |                                 |
| Vessels and equipment (note 17c)   | Level 2                    | 11,300                               | 11,300                          | 100,600                              | 100,600                         |
| Vessels held for sale (note 17c)   | Level 2                    | 61,282                               | 61,282                          | 55,450                               | 55,450                          |
| Long-term investments (note 13)  | Level 2                    | 6,000                                | 6,000                           | 25,000                               | 25,000                          |
| Other  |                            |                                      |                                 |                                      |                                 |
| Loans to equity-accounted investees and joint venture partners - Current             | (2)                        | 11,821                               | (2)                             | 7,127                                | (2)                             |
| Loans to equity-accounted investees and joint venture partners - Long-term           | (2)                        | 292,209                              | (2)                             | 184,390                              | (2)                             |
| Long-term receivable included in accounts receivable and other assets <sup>(3)</sup> | Level 3                    | 10,985                               | 10,944                          | 16,453                               | 16,427                          |
| Long-term debt - public (note 7)   | Level 1                    | (1,503,472)                          | (1,409,996)                     | (1,493,915)                          | (1,161,729)                     |
| Long-term debt - non-public (note 7)   | Level 2                    | (5,136,074)                          | (5,009,900)                     | (5,890,171)                          | (5,881,483)                     |

The fair value of the Company's interest rate swap agreements at December 31, 2016 includes \$15.8 million (1)(December 31, 2015 - \$21.7 million) accrued interest expense which is recorded in accrued liabilities on the consolidated balance sheets.

In the consolidated financial statements, the Company's loans to and equity investments in equity-accounted (2)investees constitute the aggregate carrying value of the Company's interests in entities accounted for by the equity method. The fair value of the individual components of such aggregate interests is not determinable.

As at December 31, 2016, the estimated fair value of the non-interest bearing receivable is based on the remaining future fixed payments of \$10.9 million to be received from Royal Dutch Shell Plc (or Shell) (formerly BG International Limited (or BG)), as part of the ship construction support agreement, as well as an estimated discount (3)rate of 8.0%. As there is no market rate for the equivalent of an unsecured non-interest bearing receivable from BG, the discount rate was based on unsecured debt instruments of similar maturity held, adjusted for a liquidity premium. A higher or lower discount rate would result in a lower or higher fair value asset.

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Time-charter swap agreement - Changes in fair value during the years ended December 31, 2016 and 2015 for Teekay Tankers' time-charter swap agreement, which is described in Note 14 below and is measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

|   | Year<br>Ended<br>December<br>31, 2016<br>\$ | Year<br>Ended<br>December<br>31, 2015<br>\$ |
|---|---|---|
| Fair value asset - beginning of the year  | —   | —   |
| Settlements                               | (2,154 )                                    | —   |
| Realized and unrealized gain              | 2,362                                       | —   |
| Fair value asset - at the end of the year | 208   | —   |

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The estimated fair value of the time-charter swap agreement is based in part upon the Company's projection of future Aframax spot market tanker rates, which has been derived from current Aframax spot market tanker rates and estimated future rates, as well as an estimated discount rate. The estimated fair value of the time-charter swap agreement as of December 31, 2016 is based upon an estimated average daily tanker rate of approximately \$18,000 over the remaining duration of the contract. In developing and evaluating this estimate, the Company considers the current tanker market fundamentals as well as the short and long-term outlook. A higher or lower average daily tanker rate would result in a higher or lower fair value liability or a lower or higher fair value asset. A higher or lower discount rate would result in a lower or higher fair value asset or liability.

Stock purchase warrants – During January 2014, the Company received from TIL stock purchase warrants entitling it to purchase up to 1.5 million shares of the common stock of TIL (see Note 14). The estimated fair value of the stock purchase warrants was determined using a Monte-Carlo simulation and is based, in part, on the historical price of common shares of TIL, the risk-free rate, vesting conditions and the historical volatility of comparable companies. The estimated fair value of these stock purchase warrants as of December 31, 2016 was based on the historical volatility of the comparable companies of 47.8%. A higher or lower volatility would result in a higher or lower fair value of this derivative asset.

Changes in fair value during the years ended December 31, 2016 and 2015 for one of the Company's derivative instruments, the TIL stock purchase warrants, which are described above and are measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

|   | Year Ended<br>December 31, |        |
|---|----------------------------|--------|
|   | 2016                       | 2015   |
|   | \$                         | \$     |
| Fair value at the beginning of the year     | 10,328                     | 9,314  |
| Unrealized (loss) gain included in earnings | (9,753 )                   | 1,014  |
| Fair value at the end of the year           | 575                        | 10,328 |

Contingent consideration liability – In August 2014, Teekay Offshore acquired 100% of the outstanding shares of Logitel, a Norway-based company focused on high-end UMS, from CeFront Technology AS (or CeFront) for \$4.0 million, which was paid in cash at closing, plus a commitment to pay an additional amount of up to \$27.6 million, depending upon certain performance criteria.

During the second quarter of 2016, Teekay Offshore canceled the UMS construction contracts for its two remaining UMS newbuildings. This is expected to eliminate any future purchase price contingent consideration payments. Consequently, the contingent liability was reversed in the second quarter of 2016. The gain associated with this reversal is included in Other (loss) income on the Company's consolidated statement of income for the year ended December 31, 2016.

Changes in the estimated fair value of Teekay Offshore's contingent consideration liability relating to the acquisition of Logitel, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), during the years ended December 31, 2016 and 2015 is as follows:

|  | Year Ended<br>December 31, |      |
|--|----------------------------|------|
|  | 2016                       | 2015 |
|  | \$                         | \$   |

|  |          |          |
|--|----------|----------|
| Balance at beginning of year                         | (14,830) | (21,448) |
| Adjustment to liability                              | —        | 2,569    |
| Settlement of liability                              | —        | 3,540    |
| Gain included in Other (loss) income - net (note 13) | 14,830   | 509      |
| Balance at end of year                               | —        | (14,830) |

#### 11. Capital Stock

The authorized capital stock of Teekay at December 31, 2016 and 2015, was 25,000,000 shares of Preferred Stock, with a par value of \$1 per share, and 725,000,000 shares of Common Stock, with a par value of \$0.001 per share. As at December 31, 2016, 86,149,975 shares of Common Stock (2015 – 72,711,371) were issued and outstanding and no shares of Preferred Stock issued.

During 2016, Teekay issued 0.1 million shares of common stock upon the exercise or issuance of stock options, restricted stock units and restricted stock awards and issued approximately 12.0 million shares of common stock in a private placement for net proceeds of approximately \$96.2 million.

In 2016, Teekay implemented a continuous offering program (or COP) under which Teekay may issue new common stock, at market prices up to a maximum aggregate amount of \$50.0 million. During 2016, Teekay sold an aggregate of 1.3 million shares of common stock under the COP, generating net proceeds of approximately \$9.3 million (net of approximately \$0.4 million of offering costs). Teekay used the net proceeds from the issuance of these shares of common stock for general corporate purposes.

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During 2015, the Company issued 0.2 million common shares upon the exercise of stock options and restricted stock units and awards, and had no share repurchases of common shares. During 2014, the Company issued 1.8 million common shares upon the exercise of stock options and restricted stock units and awards, and had no share repurchases of common shares.

Dividends may be declared and paid out of surplus, but if there is no surplus, dividends may be declared or paid out of the net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Surplus is the excess of the net assets of the Company over the aggregated par value of the issued shares of the Teekay. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock are entitled to share equally in any dividends that the Board of Directors may declare from time to time out of funds legally available for dividends.

During 2008, Teekay announced that its Board of Directors had authorized the repurchase of up to \$200 million of shares of its Common Stock in the open market, subject to cancellation upon approval by the Board of Directors. As at December 31, 2016, Teekay had repurchased approximately 5.2 million shares of Common Stock for \$162.3 million pursuant to such authorization. The total remaining share repurchase authorization at December 31, 2016, was \$37.7 million.

On July 2, 2010, the Company amended and restated its Shareholder Rights Agreement (the Rights Agreement), which was originally adopted by the Board of Directors in September 2000. In September 2000, the Board of Directors declared a dividend of one common share purchase right (or a Right) for each outstanding share of the Company's common stock. These Rights continue to remain outstanding and will not be exercisable and will trade with the shares of the Company's common stock until after such time, if any, as a person or group becomes an "acquiring person" as set forth in the amended Rights Agreement. A person or group will be deemed to be an "acquiring person," and the Rights generally will become exercisable, if a person or group acquires 20% or more of the Company's common stock, or if a person or group commences a tender offer that could result in that person or group owning more than 20% of the Company's common stock, subject to certain higher thresholds for existing shareholders that owned in excess of 15% of the Company's common stock when the Rights Agreement was amended. Once exercisable, each Right held by a person other than the "acquiring person" would entitle the holder to purchase, at the then-current exercise price, a number of shares of common stock of the Company having a value of twice the exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction after any such event, each holder of a Right would then be entitled to purchase, at the then-current exercise price, shares of the acquiring company's common stock having a value of twice the exercise price of the Right. The amended Rights Agreement will expire on July 1, 2020, unless the expiry date is extended or the Rights are earlier redeemed or exchanged by the Company.

Stock-based compensation

In March 2013, the Company adopted the 2013 Equity Incentive Plan (or the 2013 Plan) and suspended the 1995 Stock Option Plan and the 2003 Equity Incentive Plan (collectively referred to as the Plans). As at December 31, 2016, the Company had reserved 4,780,371 (2015 - 4,527,282) shares of Common Stock pursuant to the 2013 Plan, for issuance upon the exercise of options or equity awards granted or to be granted.

During the years ended December 31, 2016, 2015 and 2014, the Company granted options under the 2013 Plan to acquire up to 916,015, 265,135 and 15,243 shares of Common Stock, respectively, to certain eligible officers, employees and directors of the Company. The options under the Plans have ten-year terms and vest equally over three years from the grant date. All options outstanding as of December 31, 2016, expire between March 13, 2017 and March 7, 2026, ten years after the date of each respective grant.

A summary of the Company's stock option activity and related information for the years ended December 31, 2016, 2015, and 2014, are as follows:

|                                 | December 31, 2016 |                  | December 31, 2015 |                  | December 31, 2014 |                  |
|---------------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|                                 | Options           | Weighted-Average | Options           | Weighted-Average | Options           | Weighted-Average |
|                                 | (000's)           | Exercise Price   | (000's)           | Exercise Price   | (000's)           | Exercise Price   |
|                                 | #                 | \$               | #                 | \$               | #                 | \$               |
| Outstanding - beginning of year | 2,800             | 36.84            | 2,710             | 36.61            | 4,237             | 36.33            |
| Granted                         | 916               | 9.44             | 265               | 43.99            | 15                | 56.76            |
| Exercised                       | —                 | —                | (36 )             | 33.79            | (1,528)           | 36.10            |
| Forfeited / expired             | (349 )            | 38.97            | (139 )            | 46.80            | (14 )             | 28.51            |
| Outstanding - end of year       | 3,367             | 29.16            | 2,800             | 36.84            | 2,710             | 36.61            |
| Exercisable - end of year       | 2,271             | 35.89            | 2,500             | 36.03            | 2,508             | 37.03            |

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A summary of the Company's non-vested stock option activity and related information for the years ended December 31, 2016, 2015 and 2014, are as follows:

|  | December 31, 2016       |  | December 31, 2015       |  | December 31, 2014       |  |
|--|-------------------------|--|-------------------------|--|-------------------------|--|
|  | Options<br>(000's)<br># | Weighted-Average<br>Grant Date Fair<br>Value<br>\$ | Options<br>(000's)<br># | Weighted-Average<br>Grant Date Fair<br>Value<br>\$ | Options<br>(000's)<br># | Weighted-Average<br>Grant Date Fair<br>Value<br>\$ |
| Outstanding non-vested stock options - beginning of year | 300                     | 8.09   | 202                     | 9.37   | 389                     | 9.24   |
| Granted  | 916                     | 3.60   | 265                     | 7.74   | 15                      | 11.50  |
| Vested   | (118 )                  | 8.48   | (167 )                  | 9.07   | (188 )                  | 9.30   |
| Forfeited  | (2 )                    | 3.60   | —                       | —  | (14 )                   | 9.01   |
| Outstanding non-vested stock options - end of year       | 1,096                   | 4.30   | 300                     | 8.09   | 202                     | 9.37   |

The weighted average grant date fair value for non-vested options forfeited in 2016 was \$0.0 million (2015 - \$0.0 million, 2014 - \$0.1 million).

As of December 31, 2016, there was \$1.2 million of total unrecognized compensation cost related to non-vested stock options granted under the Plans. Recognition of this compensation is expected to be \$0.6 million (2017), \$0.5 million (2018) and \$0.1 million (2019). During the years ended December 31, 2016, 2015, and 2014, the Company recognized \$1.5 million, \$1.7 million and \$1.0 million, respectively, of compensation cost relating to stock options granted under the Plans. There were no options in-the-money during 2016. The intrinsic value of options exercised during 2015 was \$0.5 million and during 2014 was \$22.6 million.

As at December 31, 2016 and 2015, there was no intrinsic value in the outstanding and exercisable stock options. As at December 31, 2016, the weighted-average remaining life of options vested and expected to vest was 4.5 years (2015 – 3.4 years).

Further details regarding the Company's outstanding and exercisable stock options at December 31, 2016 are as follows:

| Range of Exercise Prices | Outstanding Options     |  |   | Exercisable Options     |  |   |
|--------------------------|-------------------------|--|---|-------------------------|--|---|
|                          | Options<br>(000's)<br># | Weighted- Average<br>Remaining Life<br>(Years) | Weighted-<br>Average<br>Exercise<br>Price<br>\$ | Options<br>(000's)<br># | Weighted- Average<br>Remaining Life<br>(Years) | Weighted-<br>Average<br>Exercise<br>Price<br>\$ |
| \$5.00 – \$9.99          | 914                     | 9.2  | 9.44  | —                       | 0  | —   |
| \$10.00 – \$19.99        | 188                     | 2.2  | 11.84   | 188                     | 2.2  | 11.84   |
| \$20.00 – \$24.99        | 293                     | 3.2  | 24.42   | 293                     | 3.2  | 24.42   |
| \$25.00 – \$29.99        | 364                     | 5.2  | 27.69   | 364                     | 5.2  | 27.69   |
| \$30.00 – \$34.99        | 117                     | 5.3  | 34.44   | 117                     | 5.3  | 34.44   |
| \$35.00 – \$39.99        | 25                      | 1.6  | 39.99   | 25                      | 1.6  | 39.99   |
| \$40.00 – \$44.99        | 1,029                   | 3.0  | 41.33   | 852                     | 1.9  | 40.78   |
| \$50.00 – \$54.99        | 422                     | 0.2  | 51.40   | 422                     | 0.2  | 51.40   |

Explanation of Responses:

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|                   |       |      |       |       |      |       |
|-------------------|-------|------|-------|-------|------|-------|
| \$55.00 – \$59.99 | 15    | 7.2  | 56.76 | 10    | 7.2  | 56.76 |
|                   | 3,367 | 4.61 | 29.16 | 2,271 | 2.49 | 35.89 |

The weighted-average grant-date fair value of options granted during 2016 was \$3.60 per option (2015 - \$7.74, 2014 - \$11.50). The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the options granted: expected volatility of 55.1% in 2016, 31.1% in 2015 and 34.7% in 2014; expected life of 6 years in 2016 and 5 years in 2015 and 2014; dividend yield of 3.2% in 2016 and 4.4% in 2015 and 2014; risk-free interest rate of 1.3% in 2016, 1.4% in 2015, and 1.6% in 2014; and estimated forfeiture rate of 7% in 2016, 8% in 2015 and 12% 2014. The expected life of the options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

The Company grants restricted stock units and performance share units to certain eligible officers and employees of the Company. Each restricted stock unit and performance share unit is equivalent in value to one share of the Company's common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date and the performance share units vest two or three years from the grant date. Upon vesting, the value of the restricted stock units, restricted stock awards and performance shares are paid to each grantee in the form of shares or cash. The number of performance share units that vest will range from zero to a multiple of the original number granted, based on certain performance and market conditions.

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During 2016, the Company granted 238,609 restricted stock units with a fair value of \$2.3 million and 311,691 performance share units with a fair value of \$3.6 million, based on the quoted market price and a Monte Carlo valuation model, to certain of the Company's employees. During 2016, a total of 98,844 restricted stock units with a market value of \$4.3 million vested and that amount, net of withholding taxes, was paid to grantees by issuing 59,518 shares of common stock. During 2015, the Company granted 63,912 restricted stock units with a fair value of \$2.8 million and 61,774 performance share units with a fair value of \$3.4 million, based on the quoted market price and a Monte Carlo valuation model, to certain of the Company's employees. During 2015, a total of 101,419 restricted stock units with a market value of \$4.3 million vested and that amount, net of withholding taxes, was paid to grantees by issuing 98,381 shares of common stock. During 2014, the Company granted 81,388 restricted stock units with a fair value of \$4.6 million and 50,689 performance share units with a fair value of \$3.4 million, based on the quoted market price and a Monte Carlo valuation model, to certain of the Company's employees. During 2014, a total of 261,911 restricted stock units with a market value of \$8.5 million vested and that amount, net of withholding taxes, was paid to grantees by issuing 149,082 shares of common stock. For the year ended December 31, 2016, the Company recorded an expense of \$4.2 million (2015 - \$4.5 million, 2014 - \$7.5 million) related to the restricted stock units and performance share units.

During 2016, the Company also granted 67,000 (2015 - 22,502 and 2014 - 18,230) shares as restricted stock awards with a fair value of \$0.6 million (2015 - \$1.0 million and 2014 - \$1.0 million), based on the quoted market price, to certain of the Company's directors. The shares of restricted stock are issued when granted.

Share-based Compensation of Subsidiaries

During the years ended December 31, 2016, 2015 and 2014, 76,084, 14,603 and 9,482 common units of Teekay Offshore, 32,723, 10,447 and 9,521 common units of Teekay LNG and 9,358, 51,948 and 17,073 shares of Class A common stock of Teekay Tankers, with aggregate values of \$0.7 million, \$1.0 million, and \$0.8 million, respectively, were granted and issued to the non-management directors of the general partners of Teekay Offshore and Teekay LNG and the non-management directors of Teekay Tankers as part of their annual compensation for 2016, 2015 and 2014.

Teekay Offshore, Teekay LNG and Teekay Tankers grant equity-based compensation awards as incentive-based compensation to certain employees of Teekay's subsidiaries that provide services to Teekay Offshore, Teekay LNG and Teekay Tankers. During March 2016, 2015 and 2014, Teekay Offshore and Teekay LNG granted phantom unit awards and Teekay Tankers granted restricted stock-based compensation awards with respect to 601,368, 102,843 and 67,569 units of Teekay Offshore, 132,582, 32,054 and 31,961 units of Teekay LNG and 279,980, 192,387 and 586,014 Class A common shares of Teekay Tankers, respectively, with aggregate grant date fair values of \$4.9 million, \$4.2 million and \$5.7 million, respectively, based on Teekay Offshore, Teekay LNG and Teekay Tankers' closing unit or stock prices on the grant dates. Each phantom unit or restricted stock unit is equal in value to one of Teekay Offshore's, Teekay LNG's or Teekay Tankers' common units or common shares plus reinvested distributions or dividends from the grant date to the vesting date. The awards vest equally over three years from the grant date. Any portion of an award that is not vested on the date of a recipient's termination of service is cancelled, unless their termination arises as a result of the recipient's retirement, in which case the award will continue to vest in accordance with the vesting schedule. Upon vesting, the awards are paid to a substantial majority of the grantees in the form of common units or common shares, net of withholding tax.

During March 2016, Teekay Tankers granted 216,043 stock options with an exercise price of \$3.74 per share that have a ten-year term and vest equally over three years from the grant date to an officer of Teekay Tankers. During March 2015, Teekay Tankers granted 58,434 stock options with an exercise price of \$5.39 per share that have a ten-year term and vest equally over three years from the grant date to an officer of Teekay Tankers. During June 2014, Teekay

Tankers granted 110,829 stock options with an exercise price of \$4.25 per share that have a ten-year term and vest equally over three years from the grant date to an officer of Teekay Tankers. During March 2016, Teekay Tankers granted 284,693 stock options with an exercise price of \$3.74 per share that have a ten-year term and vest immediately to non-management directors of Teekay Tankers. During March 2014, Teekay Tankers granted 152,346 stock options with an exercise price of \$4.10 per share that have a ten-year term and vest immediately to non-management directors of Teekay Tankers.

#### 12. Related Party Transactions

As at December 31, 2016, Resolute Investments, Ltd. (or Resolute) owned 37.1% (2015 – 39.1%, 2014 – 34.8%) of the Company's outstanding Common Stock. One of the Company's directors, Thomas Kuo-Yuen Hsu, is the President and a director of Resolute. Another of the Company's directors, Axel Karlshoej, is among the directors of Path Spirit Limited, which is the trust protector for the trust that indirectly owns all of Resolute's outstanding equity. The Company's Chairman, C. Sean Day, is engaged as a consultant to Kattegat Limited, the parent company of Resolute, to oversee its investments, including those in the Teekay group of companies. Another of the Company's directors, Bjorn Moller, is a director of Kattegat Limited.

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## 13. Other (Loss) Income

|  | Year<br>Ended<br>December<br>31,<br>2016<br>\$ | Year<br>Ended<br>December<br>31,<br>2015<br>\$ | Year<br>Ended<br>December<br>31,<br>2014<br>\$ |
|--|--|--|--|
| Write-off of contingent consideration (note 15d)       | 36,630   | —  | —  |
| Accrual of contingent liability (note 15d)             | (61,862 )                                      | —  | —  |
| Write-down of cost-accounted investment <sup>(1)</sup> | (19,000 )                                      | —  | —  |
| TIL stock purchase warrants received (note 14)         | —  | —  | 6,839  |
| Miscellaneous income (loss)                            | 5,219  | 1,566  | (292 )   |
| Loss on bond repurchases                               | —  | —  | (7,699 )                                       |
| Other (loss) income                                    | (39,013 )                                      | 1,566  | (1,152 )                                       |

(1) The company holds investments at cost. During the year ended December 31, 2016 the Company recorded a write-down of these investments of \$19.0 million.

## 14. Derivative Instruments and Hedging Activities

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

## Foreign Exchange Risk

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

As at December 31, 2016, the Company was committed to the following foreign currency forward contracts:

|                  | Contract<br>Amount in<br>Foreign<br>Currency | Average<br>Forward<br>Rate <sup>(1)</sup> | Fair Value /<br>Carrying<br>Amount<br>Of Asset<br>(Liability)<br>\$ | Expected<br>Maturity<br>2017 | 2018   |
|------------------|--|---|---|------------------------------|--------|
|                  |  |   |   | \$                           | \$     |
| Euro             | 13,750                                       | 0.92                                      | (304 )  | 14,879                       | —      |
| Norwegian Kroner | 610,000                                      | 8.31                                      | (2,689 )  | 60,677                       | 12,719 |
|                  |  |   | (2,993 )  | 75,556                       | 12,719 |

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

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The Company enters into cross currency swaps and pursuant to these swaps the Company receives the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal at maturity of the Company's NOK-denominated bonds due in 2017 through 2021. In addition, the cross currency swaps economically hedge the interest rate exposure on the NOK bonds due in 2017 through 2021. The Company has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK-denominated bonds due in 2017 through 2021. As at December 31, 2016, the Company was committed to the following cross currency swaps:

| Notional<br>Amount<br>NOK  | Notional<br>Amount<br>USD | Floating Rate<br>Receivable<br>Reference<br>Rate | Margin | Fixed<br>Rate<br>Payable | Fair Value<br>/ Carrying<br>Amount of<br>Asset /<br>(Liability) | Remaining<br>Term (years) |
|----------------------------|---------------------------|--|--------|--------------------------|---|---------------------------|
| 408,500                    | 72,946                    | NIBOR  | 5.25 % | 6.88 %                   | (26,417 )   | 0.3                       |
| 420,000 <sup>(1) (2)</sup> | 70,946                    | NIBOR  | 5.75 % | 8.84 %                   | (25,821 )   | 1.9                       |
| 800,000 <sup>(1) (3)</sup> | 143,536                   | NIBOR  | 5.75 % | 7.58 %                   | (56,272 )   | 2.0                       |
| 900,000                    | 110,400                   | NIBOR  | 6.00 % | 7.72 %                   | (3,814 )  | 4.8                       |
| 900,000                    | 150,000                   | NIBOR  | 4.35 % | 6.43 %                   | (49,655 )   | 1.7                       |
| 1,000,000                  | 162,200                   | NIBOR  | 4.25 % | 7.45 %                   | (55,286 )   | 2.1                       |
| 1,000,000                  | 134,000                   | NIBOR  | 3.70 % | 5.92 %                   | (19,900 )   | 3.4                       |
|                            |                           |  |        |                          | (237,165 )  |                           |

(1) Notional amount reduces equally with NOK bond repayments (see Note 7).

(2) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 7.2 million for \$1.2 million (see Note 7).

(3) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 19.2 million for \$3.4 million (see Note 7).

**Interest Rate Risk**

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

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As at December 31, 2016, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt and EURIBOR-based debt, whereby certain of the Company's floating-rate debt obligations were swapped with fixed-rate obligations:

|   | Interest<br>Rate<br>Index | Principal<br>Amount<br>\$ | Fair Value /<br>Carrying<br>Amount of<br>Asset /<br>(Liability)<br>\$ | Weighted-<br>Average<br>Remaining<br>Term<br>(years) | Fixed<br>Interest<br>Rate<br>(%) <sup>(1)</sup> |
|---|---------------------------|---------------------------|---|--|---|
| LIBOR-Based Debt:   |                           |                           |   |  |   |
| U.S. Dollar-denominated interest rate swaps                   | LIBOR                     | 2,974,274                 | (243,261 )  | 5.4  | 3.3   |
| U.S. Dollar-denominated interest rate swaps <sup>(2)</sup>    | LIBOR                     | 517,629                   | (16,489 )   | 4.2  | 3.0   |
| U.S. Dollar-denominated interest rate swaption <sup>(3)</sup> | LIBOR                     | 155,000                   | (1,525 )  | 0.3  | 2.2   |
| U.S. Dollar-denominated interest rate swaption <sup>(3)</sup> | LIBOR                     | 155,000                   | 31  | 0.3  | 3.3   |
| U.S. Dollar-denominated interest rate swaption <sup>(4)</sup> | LIBOR                     | 160,000                   | (1,457 )  | 1.1  | 2.0   |
| U.S. Dollar-denominated interest rate swaption <sup>(4)</sup> | LIBOR                     | 160,000                   | 1,140   | 1.1  | 3.1   |
| U.S. Dollar-denominated interest rate swaption <sup>(5)</sup> | LIBOR                     | 160,000                   | (1,248 )  | 1.5  | 1.8   |
| U.S. Dollar-denominated interest rate swaption <sup>(5)</sup> | LIBOR                     | 160,000                   | 2,112   | 1.5  | 2.9   |
| EURIBOR-Based Debt:   |                           |                           |   |  |   |
| Euro-denominated interest rate swaps <sup>(6) (7)</sup>       | EURIBOR                   | 219,733                   | (34,295 )<br>(294,992 )   | 4.0  | 3.1   |

<sup>(1)</sup> Excludes the margins the Company pays on its variable-rate debt, which, as of December 31, 2016, ranged from 0.3% to 4.0%.

Inception dates range from September 2017 to April 2018. Interest rate swaps with an aggregate principal amount of \$320 million are being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2017 to 2024. These interest rate swaps are subject to mandatory early termination in 2017 and 2018 whereby the swaps will be settled based on their fair value at that time.

During June 2015, as part of its hedging program, Teekay LNG entered into interest rate swaption agreements whereby it has a one-time option in April 2017 to enter into an interest rate swap at a fixed rate of 3.34% with a third party, and the third party has a one-time option in April 2017 to require Teekay LNG to enter into an interest swap at a fixed rate of 2.15%. If Teekay LNG or the third party exercises its option, there will be a cash settlement in April 2017 for the fair value of the interest rate swap, in lieu of taking delivery of the actual interest rate swap.

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

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

<sup>(6)</sup> Principal amount reduces monthly to 70.1 million Euros (\$73.7 million) by the maturity dates of the swap agreements.

<sup>(7)</sup>

Principal amount is the U.S. Dollar equivalent of 208.9 million Euros.

Teekay Corporation has guaranteed obligations, up to a maximum of \$387.0 million, pursuant to certain interest rate swaps and cross currency swaps of Teekay Offshore. As at December 31, 2016, the estimated fair value of these interest rate swaps and cross currency swaps, capped at the maximum guarantee obligation, was a liability of \$241.3 million.

#### Stock Purchase Warrants

In January 2014, Teekay and Teekay Tankers formed TIL. Teekay and Teekay Tankers purchased an aggregate of 5.0 million shares of TIL's common stock, representing an initial 20% interest in TIL, as part of a \$250 million private placement by TIL, which represents a total investment by Teekay and Teekay Tankers of \$50.0 million. In addition, Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase an aggregate of up to 1.5 million shares of common stock of TIL at a fixed price of \$10 per share. Alternatively, if the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, Teekay and Teekay Tankers may also exercise their stock purchase warrants at 61.67 NOK per share. The estimated fair value of the warrants on issuance was \$6.8 million and was included in other (loss) income in the consolidated statements of income. The stock purchase warrants vest in four equally sized tranches and as at December 31, 2016, two tranches had vested. If the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, each tranche will vest and become exercisable when and if the fair market value of a share of TIL's common stock equals or exceeds 77.08 NOK, 92.50 NOK, 107.91 NOK and 123.33 NOK, respectively, for such tranche for any ten consecutive trading days. The stock purchase warrants expire on January 23, 2019. The fair value of the stock purchase warrants at December 31, 2016 was \$0.6 million. The Company reports the unrealized gains from the stock purchase warrants in realized and unrealized losses on non-designated derivatives in the consolidated statements of income.

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## Time-charter Swap

Effective June 1, 2016, Teekay Tankers entered into a time-charter swap agreement for 55% of two Aframax-equivalent vessels. Under such agreement, Teekay Tankers will receive \$27,776 per day, net of a 1.25% brokerage commission, and pay 55% of the net revenue distribution of two Aframax-equivalent vessels employed in Teekay Tankers' Aframax revenue sharing pooling arrangement, less \$500 per day, for a period of 11 months plus an additional two months at the counterparty's option. The purpose of the agreement is to reduce Teekay Tankers' exposure to spot tanker market rate variability for certain of its vessels that are employed in the Aframax revenue sharing pooling arrangement. Teekay Tankers has not designated, for accounting purposes, the time-charter swap as a cash flow hedge. The fair value of the time-charter swap agreement at December 31, 2016 was an asset of \$0.2 million.

## Tabular Disclosure

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

|  | Prepaid<br>Expenses<br>and<br>Other | Other<br>Non-Current<br>Assets | Accrued<br>Liabilities | Current<br>Portion of<br>Derivative<br>Liabilities | Derivative<br>Liabilities |
|--|-------------------------------------|--------------------------------|------------------------|--|---------------------------|
| As at December 31, 2016                          |                                     |                                |                        |  |                           |
| Derivatives designated as a cash flow hedge:     |                                     |                                |                        |  |                           |
| Interest rate swap agreements                    | —                                   | 1,340                          | (363 )                 | (1,033 )   | (52 )                     |
| Derivatives not designated as a cash flow hedge: |                                     |                                |                        |  |                           |
| Foreign currency contracts                       | 119                                 | —                              | —                      | (2,601 )   | (511 )                    |
| Interest rate swap agreements                    | 212                                 | 9,841                          | (11,979 )              | (59,055 )  | (233,903 )                |
| Cross currency swap agreements                   | —                                   | —                              | (3,464 )               | (53,124 )  | (180,577 )                |
| Stock purchase warrants                          | —                                   | 575                            | —                      | —  | —                         |
| Time-charter swap agreement                      | 875                                 | —                              | (667 )                 | —  | —                         |
|  | 1,206                               | 11,756                         | (16,473 )              | (115,813 )   | (415,043 )                |
| As at December 31, 2015                          |                                     |                                |                        |  |                           |
| Derivatives designated as a cash flow hedge:     |                                     |                                |                        |  |                           |
| Interest rate swap agreements                    | —                                   | —                              | —                      | (338 )   | (777 )                    |
| Derivatives not designated as a cash flow hedge: |                                     |                                |                        |  |                           |
| Foreign currency contracts                       | 80                                  | —                              | —                      | (16,372 )  | (2,534 )                  |
| Interest rate swap agreements                    | —                                   | 7,516                          | (18,348 )              | (198,196 )   | (154,673 )                |
| Cross currency swap agreements                   | —                                   | —                              | (3,377 )               | (52,633 )  | (256,100 )                |
| Stock purchase warrants                          | —                                   | 10,328                         | —                      | —  | —                         |
|  | 80                                  | 17,844                         | (21,725 )              | (267,539 )   | (414,084 )                |

As at December 31, 2016, the Company had multiple interest rate swaps, cross currency swaps and foreign currency forward contracts with the same counterparty that are subject to the same master agreements. Each of these master agreements provides for the net settlement of all derivatives subject to that master agreement through a single payment in the event of default or termination of any one derivative. The fair value of these derivatives is presented on a gross basis in the Company's consolidated balance sheets. As at December 31, 2016, these derivatives had an aggregate fair value asset amount of \$7.2 million (December 31, 2015 - \$nil) and an aggregate fair value liability amount of \$398.7 million (December 31, 2015 - \$588.1 million). As at December 31, 2016, the Company had \$68.0 million on deposit

with the relevant counterparties as security for swap liabilities under certain master agreements (December 31, 2015 - \$105.3 million). The deposit is presented in restricted cash on the consolidated balance sheets.

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

Year Ended December 31, 2016

| Effective<br>Portion | Ineffective<br>Portion |                  |
|----------------------|------------------------|------------------|
| Recognized           | Reclassified           |                  |
| in from              | Portion                |                  |
| AOCI                 | AOCI <sup>(2)</sup>    |                  |
| \$                   | \$                     |                  |
| 691 (68 )            | 682                    | Interest expense |
| 691 (68 )            | 682                    |                  |

Year Ended December 31, 2015

| Effective<br>Portion | Ineffective<br>Portion |                  |
|----------------------|------------------------|------------------|
| Recognized           | Reclassified           |                  |
| in from              | Portion                |                  |
| AOCI                 | AOCI <sup>(2)</sup>    |                  |
| \$                   | \$                     |                  |
| (65) —               | (1,050 )               | Interest expense |
| (65) —               | (1,050 )               |                  |

(1) Recognized in accumulated other comprehensive loss (or AOCI).

(2) Recorded in AOCI during the term of the hedging relationship and reclassified to earnings.

(3) Recognized in the ineffective portion of gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

As at December 31, 2016, the Company estimated, based on then current interest rates, that it would reclassify approximately \$0.7 million of net losses on interest rate swaps from accumulated other comprehensive loss to earnings during the next 12 months.

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

|   | Year<br>Ended<br>December<br>31, 2016 | Year<br>Ended<br>December<br>31, 2015 | Year<br>Ended<br>December<br>31, 2014 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
|   | \$                                    | \$                                    | \$                                    |
| Realized (losses) gains relating to:      |                                       |                                       |                                       |
| Interest rate swap agreements             | (87,320 )                             | (108,036 )                            | (125,424 )                            |
| Interest rate swap agreement terminations | (8,140 )                              | (10,876 )                             | (1,319 )                              |

Explanation of Responses:

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Foreign currency forward contracts                                     | (11,186 ) | (21,607 ) | (4,436 )  |
| Time charter swap agreement  | 2,154     | —         | —         |
|  | (104,492) | (140,519) | (131,179) |
| Unrealized gains (losses) relating to:                                 |           |           |           |
| Interest rate swap agreements  | 62,446    | 37,723    | (86,045 ) |
| Foreign currency forward contracts                                     | 15,833    | (418 )    | (16,926 ) |
| Stock purchase warrants  | (9,753 )  | 1,014     | 2,475     |
| Time-charter swap agreement  | 875       | —         | —         |
|  | 69,401    | 38,319    | (100,496) |
| Total realized and unrealized (losses) gains on derivative instruments | (35,091 ) | (102,200) | (231,675) |

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

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2016                    | 2015      | 2014      |
|  | \$                      | \$        | \$        |
| Realized losses on maturity and partial termination of cross currency swap | (41,707)                | (36,155 ) | —         |
| Realized losses  | (38,564)                | (18,973 ) | (3,955 )  |
| Unrealized gains (losses)  | 75,033                  | (89,178 ) | (167,334) |
| Total realized and unrealized losses on cross currency swaps               | (5,238 )                | (144,306) | (171,289) |

The Company is exposed to credit loss to the extent the fair value represents an asset in the event of non-performance by the counterparties to the foreign currency forward contracts, and cross currency and interest rate swap agreements; however, the Company does not anticipate non-performance by any of the counterparties. In order to minimize counterparty risk, the Company only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transaction. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

## 15. Commitments and Contingencies

## a) Vessels under Construction

As at December 31, 2016, the Company was committed to the construction of nine LNG carriers, three long-haul towage vessels, three shuttle tankers, one FSO conversion and one FPSO upgrade for a total cost of approximately \$3.0 billion, including capitalized interest and other miscellaneous construction costs. Vessels in which the Company holds an interest through non-consolidated joint ventures are excluded from the above amounts and are described in Note 15b. Three LNG carriers are scheduled for delivery in 2017, four LNG carriers are scheduled for delivery in 2018 and two LNG carriers are scheduled for delivery in 2019. Three long-distance towing and offshore installation vessels are scheduled for delivery during 2017, three shuttle tankers are expected to be delivered in late-2017 through the first half of 2018, the one FSO conversion is scheduled for completion in mid-2017 and the one FPSO upgrade is scheduled for completion in 2017. As at December 31, 2016, payments made towards these commitments totaled \$1.0 billion. As at December 31, 2016, the remaining payments required to be made under these newbuilding and conversion capital commitments were \$1.1 billion (2017), \$607.3 million (2018), \$250.3 million (2019).

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## b)Joint Ventures

Teekay LNG's share of commitments to fund newbuilding and other construction contract costs of its non-consolidated joint ventures as at December 31, 2016 are as follows:

|  | Total     | 2017    | 2018    | 2019    | 2020    |
|--|-----------|---------|---------|---------|---------|
|  | \$        | \$      | \$      | \$      | \$      |
| Yamal LNG Joint Venture <sup>(i)</sup>     | 883,030   | 91,800  | 344,850 | 247,800 | 198,580 |
| BG Joint Venture <sup>(ii)</sup>           | 195,565   | 80,010  | 86,154  | 29,401  | —       |
| Bahrain LNG Joint Venture <sup>(iii)</sup> | 224,080   | 110,364 | 80,097  | 33,619  | —       |
| Exmar LPG Joint Venture <sup>(iv)</sup>    | 77,504    | 58,096  | 19,408  | —       | —       |
|  | 1,380,179 | 340,270 | 530,509 | 310,820 | 198,580 |

Teekay LNG, through the Yamal LNG Joint Venture, has a 50% ownership interest in six 172,000-cubic meter ARC7 LNG carrier newbuildings that have an estimated total fully built-up cost of \$2.1 billion. As at December 31, (i) 2016, Teekay LNG's proportionate costs incurred under these newbuilding contracts totaled \$153.3 million. The Yamal LNG Joint Venture intends to secure debt financing for the six LNG carrier newbuildings prior to their scheduled deliveries.

Teekay LNG acquired an ownership interest in the BG Joint Venture and, as part of the acquisition, agreed to assume Shell's obligation to provide shipbuilding supervision and crew training services for the four LNG carrier (ii) newbuildings up to their delivery dates pursuant to a ship construction support agreement. The BG Joint Venture has secured financing of \$137.1 million related to the commitments included in the table above and Teekay LNG is scheduled to receive \$10.9 million of reimbursement directly from Shell.

Teekay LNG has a 30% ownership interest in the Bahrain LNG Joint Venture for the development of an LNG receiving and regasification terminal in Bahrain. The project will include a FSU, which will be modified from one of the Teekay LNG's existing MEGI LNG carrier newbuildings, an offshore gas receiving facility, and an onshore (iii) nitrogen production facility. The terminal will have a capacity of 800 million standard cubic feet per day and will be owned and operated under a 20-year agreement commencing early-2019. The receiving and regasification terminal is expected to have a fully-built up cost of approximately \$960.0 million. The Bahrain LNG Joint Venture has secured debt financing for approximately 75% of the estimated fully built-up cost of the LNG receiving and regasification terminal in Bahrain.

Teekay LNG has a 50% ownership interest in the Exmar LPG Joint Venture which has four LPG newbuilding (iv) vessels scheduled for delivery between 2017 and 2018 and has secured financing for the four LPG carrier newbuildings.

In October 2014, Teekay Offshore sold a 1995-built shuttle tanker, the Navion Norvegia, to a 50/50 joint venture with Brazilian-based Odebrecht Oil & Gas S.A. (or OOG). The vessel is committed to a new FPSO conversion for the Libra field located in the Santos Basin offshore Brazil. The conversion project has been completed at Sembcorp Marine's Jurong Shipyard in Singapore and the FPSO unit is scheduled to commence operations in mid-2017 under a 12-year fixed-rate contract with Petrobras. The FPSO conversion is expected to cost approximately \$1.0 billion. As at December 31, 2016, payments made by the joint venture towards these commitments totaled \$700.6 million and the estimated remaining payments required to be made are \$302.3 million (2017). The joint venture secured a long-term debt facility providing total borrowings of up to \$804.0 million for the FPSO conversion, of which \$266.7 million was undrawn as at December 31, 2016. During 2016, as a result of certain defaults on interest payments by an OOG affiliate which OOG had guaranteed, the Libra Joint Venture was required to obtain cross default waivers from the lenders of the construction period loan facility. The current waiver is due to expire on June 16, 2017. Although the Libra Joint Venture expects to obtain further cross default waivers from the facility lenders, a failure to do so could

adversely affect its ability to fund and complete the Libra FPSO conversion.

c)Liquidity

As of December 31, 2016, the Company adopted the new accounting standard ASC-205-40, Presentation of Financial Statements - Going Concern, which requires management to assess if the Company will have sufficient liquidity to continue as a going concern for the one-year period following the issuance of its financial statements. Despite generating \$87 million of consolidated net income and \$620 million of consolidated cash flows from operating activities during 2016, the Company ended the year with a working capital deficit of \$365 million. This working capital deficit is driven primarily from scheduled 2017 maturities and repayments of outstanding consolidated debt of approximately \$1.0 billion, which were classified as current liabilities as at December 31, 2016. In addition to these obligations, the Company also anticipates that Teekay LNG and Teekay Offshore will be required to make payments related to commitments to fund vessels under construction or undergoing conversions/upgrades. (see Notes 15a and 15b).

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Based on these factors, over the one-year period following the issuance of its consolidated financial statements, the Company's consolidated subsidiaries Teekay Tankers, Teekay LNG and Teekay Offshore will need to obtain additional sources of financing, in addition to amounts generated from operations, to meet the minimum liquidity requirements under the financial covenants related to these subsidiaries. These anticipated sources of financing include: raising additional capital through equity issuances; refinancing and increasing amounts available under various loan facilities of Teekay Tankers, Teekay LNG and Teekay Offshore; negotiating new secured debt financings related to vessels under construction or other unencumbered operating vessels for Teekay Tankers, Teekay LNG and Teekay Offshore; and, for Teekay Offshore, negotiating extensions or redeployments of existing assets and the sale of partial interests in certain assets. The success of these initiatives of the Daughter Companies may impact the liquidity of Teekay Parent as a result of certain guarantees provided by Teekay Parent and through the payment of dividends/distributions by the Daughter Companies to Teekay Parent.

The Company is actively pursuing the alternatives described above, which it considers probable of completion based on the Company's history of being able to raise equity, refinance similar loan facilities and to obtain new debt financing for its vessels under construction, as well as the progress it has made on the financing process to date and indicative offers received from potential investors in certain assets. The Company is in various stages of completion on these matters.

Based on the Company's liquidity at the date these consolidated financial statements were issued, the liquidity it expects to generate from operations over the following year, and by incorporating the Company's plans to raise additional liquidity that it considers probable of completion, the Company estimates that it will have sufficient liquidity to continue as a going concern for at least the one-year period following the issuance of these consolidated financial statements.

d)Legal Proceedings and Claims

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

Polar Spirit contract termination

In December 2016, Teekay was awarded \$42.4 million plus interest by an arbitrator for unpaid hire and damages for termination of a time-charter contract relating to the Polar Spirit. The charterers have not responded and Teekay is looking to enforce the award. As the collectability of the award is uncertain, no amounts have been accrued.

Cancellation of two UMS newbuilding contracts

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

In June 2016, Teekay Offshore canceled the UMS construction contracts for the two remaining UMS newbuildings, the Stavanger Spirit and Nantong Spirit. As a result of this cancellation, during the second quarter of 2016, Teekay Offshore wrote-off \$43.7 million of the assets related to these newbuildings and reversed contingent liabilities of \$14.5 million associated with the delivery of these assets. The estimate of potential damages for the cancellation of the

Stavanger Spirit newbuilding contract is based on the amount due for the final yard installment of approximately \$170 million less the estimated fair value of the Stavanger Spirit. Given the unique design of the vessel as well as the lack of recent sale and purchase transactions for this type of asset, the value of this vessel, and thus ultimately the amount of potential damages that may result from the cancellation, is uncertain. Pursuant to the Stavanger Spirit newbuilding contract and related agreements, Teekay Offshore believes COSCO only has recourse to the single purpose subsidiary that was a party to the Stavanger Spirit newbuilding contract and its immediate parent company, Logitel Offshore Pte. Ltd., for damages incurred.

The estimate of potential damages for the cancellation of the Nantong Spirit newbuilding contract is based upon estimates of a number of factors, including accumulated costs incurred by COSCO, sub-supplier contract cancellation costs, as well as how such costs are treated under the termination provisions in the contract. Teekay Offshore estimates that the amount of potential damages related to the cancellation of the Nantong Spirit contract could range between \$10 million and \$40 million. Pursuant to the Nantong Spirit newbuilding contract, Teekay Offshore believes COSCO only has recourse to the single purpose subsidiary that was a party to the Nantong Spirit newbuilding contract.

During September 2016, Sevan commenced an action against Logitel, which Teekay Offshore acquired in 2014, in the Oslo District Court. The action relates to the agreements between Sevan and CeFront, related to the 2013 transfer to Logitel Offshore Pte. Ltd. or its wholly-owned subsidiaries (collectively Logitel Offshore) of two hulls to be converted into UMS, including the \$60 million bond loan (of which \$41 million was a vendor credit and \$19 million was a cash loan) granted by a Sevan affiliate to Logitel (or the 2013 Transaction). The action also relates to agreements between Sevan and Teekay Offshore entered into in connection with Teekay Offshore's acquisition of Logitel from CeFront in 2014 (or the 2014 Transaction). Sevan has claimed that the \$60 million bond loan to Logitel contravened certain provisions of the Norwegian Corporate Law and that Sevan is entitled to the remaining payment of \$50 million plus interest set at the court's discretion. Logitel intends to dispute these claims. In addition, Sevan has presented Teekay Offshore with a formal notice of claim and request for arbitration seeking \$10 million for license and services fees, which Sevan claims is payable in connection with the delivery of the Arendal Spirit. The parties are in the process of selecting an arbitration tribunal and exchanging information on their respective calculations of the amount of license and service fees that may be due.

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In addition, in September 2016, CeFront commenced an action against Logitel in the Oslo District Court, claiming that \$2.8 million is due under a management agreement and an additional \$3.6 million will fall due by May 2017 under that agreement. CeFront also claims that \$3.3 million is due under the earn-out provisions of the contracts related to the Arendal Spirit and that \$20.2 million is due or will become due related to the earn-out provisions of the contracts for the Stavanger Spirit and Nantong Spirit. Teekay Offshore is defending these claims based on its interpretation of the agreement. Teekay Offshore is uncertain as to the ultimate resolution of these claims.

As at December 31, 2016, Teekay Offshore has accrued \$61.9 million in the aggregate related to the above claims and potential claims related to Logitel from Sevan, COSCO and CeFront.

Petrojarl Knarr FPSO

In October 2016 Teekay Offshore received a claim from Royal Dutch Shell Plc (or Shell) for liquidated damages of \$23.6 million. This claim is based on Shell's allegation that the Petrojarl Knarr FPSO did not meet the conditions for achieving the Offshore Completion milestone on time. Shell is also claiming that the inability of Teekay Offshore to meet the Offshore Completion milestone date in excess of the grace period has in effect resulted in a 20% reduction in the purchase price for which Shell may purchase the Petrojarl Knarr FPSO from Teekay Offshore pursuant to an option granted in the Purchase Option Agreement. In the counterclaim, Teekay Offshore has alleged that Offshore Completion was achieved after the milestone but within the grace period and that Shell had caused delays due to certain defaults in Shell's specifications, as well as other events. It is Teekay Offshore's position that, due to delays caused by Shell, Teekay Offshore is entitled to the daily lease rate for the unit for a period of time prior to when Shell actually started paying such rate and that Shell is not entitled to a reduction in the Purchase Option Price. The duration of any such period that Teekay Offshore claims to be entitled to receive additional daily lease payments is in dispute. However, Teekay Offshore expects that the amount of its claim relating to the counterclaim will exceed Shell's claim of liquidated damages. Nevertheless, uncertainty exists as to the resolution of the claims.

Arendal Spirit UMS

In early-November 2016, the Arendal Spirit UMS experienced an operational incident relating to its dynamic positioning system. As a result of this operational incident, and a gangway incident that occurred in April 2016, the charterer, Petrobras, initiated an operational review. Until the results of the review are available, Petrobras has suspended its charter hire payments since November 2016. Teekay Offshore completed an investigation to identify the cause of such incidents and has implemented corrective actions. There is a risk that Petrobras may seek to cancel the charter contract resulting from their operational review. If this occurs, the term loan outstanding for the Arendal Spirit UMS, which as at December 31, 2016 had a balance of \$127.5 million, could become payable within 180 days of a cancellation. Teekay Offshore is working to address Petrobras' concerns to bring the unit back into operation as soon as possible. Should the contract be cancelled, it could result in a reclassification of \$112.5 million of long-term debt to the current portion of long-term debt unless Teekay Offshore is able to obtain an extension from the lenders.

Piranema Spirit FPSO Contract

In March 2016, Petrobras claimed that Teekay Offshore's November 2011 cessation of paying certain agency fees with respect to the Piranema Spirit FPSO unit's employment should have resulted in a corresponding 2.0% rate reduction on the FPSO contract with Petrobras. Teekay Offshore has estimated the maximum amount of the claim at \$7.5 million, consisting of \$5.4 million (which is the amount accrued by Teekay Offshore as at December 31, 2016) from a return of 2.0% of the charter hire previously paid by Petrobras to Teekay Offshore for the period from November 2011 up to



December 31, 2016, and \$2.1 million from a 2.0% reduction of future charter hire to the end of the term of the FPSO contract with Petrobras.

#### Towage of the Ocean Winner

In February 2017, Teekay Offshore received a notice from Transocean Offshore International Ventures Limited (or Transocean) that it intends to file a claim against Teekay Offshore arising from the towage of the Transocean Winner oil rig by one of its towage vessels, the ALP Forward. Transocean intends to file a claim to recover losses it incurred relating to the grounding of the Transocean Winner in August 2016, including the costs associated with the salvage, replacement tow and other costs payable by Transocean as a result of this incident. Teekay Offshore intends to dispute these claims and believes that such claims would be covered by insurance. As at December 31, 2016, Teekay Offshore had not accrued for any potential liability relating to these claims. An estimate of the possible loss or range of loss cannot be made at this time.

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Damen Shipyard Group

In December 2014, Teekay Offshore acquired the Petrojarl I FPSO unit from Teekay Corporation for \$57.0 million. The Petrojarl I is undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard (or Damen) in the Netherlands with an estimated total cost of approximately \$350 million, which includes the cost of acquiring the Petrojarl I. The FPSO is expected to commence operations in the late-2017 under a five-year charter contract with Queiroz Galvão Exploração e Produção SA (or QGEP). As at December 31, 2016, payments made towards these commitments, including the acquisition of the Petrojarl I FPSO unit from Teekay Corporation, totaled \$252.5 million and the remaining payments required to be made are estimated to be \$97.5 million in 2017. Teekay Offshore is currently in negotiations with the yard regarding the valuation of certain variation orders relating to the upgrades. The outcome of these negotiations may impact the total estimated cost of the Petrojarl I FPSO unit. Teekay Offshore has financed \$171.2 million of the Petrojarl I FPSO upgrade cost through a fully-drawn long-term loan. Due to project delays in the delivery of the unit resulting from shipyard delays, an increased scope of work relating to field-specific requirements and the age of the unit, Teekay Offshore is currently in discussions with QGEP, Damen and its lenders in the Petrojarl I loan facility to agree on revised delivery and charterer acceptance dates for the unit and other terms associated with the charter, shipyard contract and loan facility. In October 2016, December 2016, February 2017, and April 2017 the lenders agreed to extend the availability date of the loan for successive periods of two months, as the loan was subject to a mandatory prepayment provision, initially in early October 2016, if the unit was not accepted at that time by QGEP. These interim extensions provide additional time for Teekay Offshore to negotiate a revised schedule for the delivery of the unit and thereafter, amend the loan facility to reflect the revised delivery schedule. As at December 31, 2016, Teekay Offshore had \$60 million held in escrow to fund the final upgrade costs (December 31, 2015 - nil). This amount is presented in restricted cash on the consolidated balance sheet.

STX Offshore & Shipbuilding Co.

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

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

STX has filed for bankruptcy protection and as of December 31, 2016, all Korean enforcement actions are stayed. STX has had that protection recognized in England and Wales. Teekay Tankers will not be in a position to take any further action on enforcement and recognition of its award in the UK or Korea while the bankruptcy protection remains in place. No amounts have been recorded as receivable in respect of these awards due to uncertainty of their collection.

The option agreement case has gone through trial and despite finding that Teekay Tankers had valid option agreements, the judgment was ruled against Teekay Tankers due to uncertainty of delivery dates. Teekay Tankers is considering whether to appeal this ruling.

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Class Action Complaint

Following the Company's announcement in December 2015 that its Board of Directors had reduced the Company's quarterly dividend to \$0.055 per share, down from a dividend of \$0.55 per share in the fourth quarter of 2015 dividend payable in February 2016 and the subsequent decline of the price of the Company's common stock, a class action complaint was filed on March 1, 2016 in the U.S. District Court for the District of Connecticut against the Company and certain of its officers. As a result of the Company's motion to transfer the action, the case was transferred to the U.S. District Court for the Western District of Washington on November 18, 2016. The lead plaintiff in the action filed an Amended Class Action Complaint on January 13, 2017. The Amended Complaint includes claims that the Company and certain of its officers violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. The Amended Complaint alleges that the Company and certain of its officers violated federal securities laws by making materially false and misleading statements regarding the Company's ability and intention to increase its future dividends beyond the initial dividend increase to \$0.55 per share that the Company announced in September 2014 and first declared in the second quarter of 2015, thereby artificially inflating the price of its common stock. The lead plaintiff is seeking unspecified monetary damages, including reasonable costs and expenses incurred in this action. The Company is vigorously defending against the claims. The Company filed a motion to dismiss the Amended Complaint on March 14, 2017. The motion to dismiss will be fully briefed and ready for consideration by the Court on June 14, 2017. Based on the current stage of this action and the Company's evaluation of the facts available at this time, the amount or range of reasonably possible losses to which the Company is exposed cannot be estimated and the ultimate resolution of this matter and the associated financial impact to the Company, if any, remains uncertain at this time. The Company maintains a Directors and Officers insurance policy that provides a fixed amount of coverage for such claims, subject to coverage defenses, and a deductible to be paid by the Company.

Teekay Nakilat Capital Lease

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

The UK taxing authority (or HMRC) has been challenging the use of similar lease structures in the UK courts. One of those challenges was eventually decided in favor of HMRC (Lloyds Bank Equipment Leasing No. 1 or LEL1), with the lessor and lessee choosing not to appeal further. The LEL1 tax case concluded that capital allowances were not available to the lessor. On the basis of this conclusion, HMRC is now asking lessees on other leases, including the Teekay Nakilat Joint Venture, to accept that capital allowances are not available to their lessor. The Teekay Nakilat Joint Venture does not accept this contention and has informed HMRC of this position. It is not known at this time whether the Teekay Nakilat Joint Venture would eventually prevail in court. If the former lessor of the RasGas II LNG Carriers were to lose on a similar claim from HMRC, Teekay LNG's 70% share of the Teekay Nakilat Joint Venture's

potential exposure is estimated to be approximately \$60 million. Such estimate is primarily based on information received from the lessor.

e) Redeemable Non-Controlling Interest

During 2010, an unrelated party contributed a shuttle tanker with a value of \$35.0 million to a subsidiary of Teekay Offshore for a 33% equity interest in the subsidiary. The non-controlling interest owner of Teekay Offshore's 67%-owned subsidiary holds a put option which, if exercised, would obligate Teekay Offshore to purchase the non-controlling interest owner's 33% share in the entity for cash in accordance with a defined formula. The redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at December 31, 2016.

In July 2015, Teekay Offshore issued 10.4 million of its 8.60% Series C Cumulative Convertible Perpetual Preferred Units (or Series C Preferred Units) in a private placement for net proceeds of approximately \$249.8 million. The terms of the Series C Preferred Units provided that at any time after the 18-month anniversary of the closing date, at the election of each holder, the Series C Preferred Units could be converted on a one-for-one basis into common units of Teekay Offshore. In addition, if after the three-year anniversary of the closing date, the volume weighted average price of the common units exceeded \$35.925, Teekay Offshore had the option to convert the Series C Preferred Units into common units. Distributions on the Series C Preferred Units were cumulative from the date of original issue and are payable quarterly in arrears, when, as and if declared by the board of directors of the general partner. The Series C Preferred Units could be redeemed in cash if a change of control occurred in Teekay Offshore.

In June 2016, Teekay Offshore and the holders of the Series C Preferred Units exchanged approximately 1.9 million of the Series C Preferred Units for approximately 8.3 million common units of Teekay Offshore. The number of common units issued consists of the approximately 1.9 million common units that would have been issuable under the original conversion terms of the Series C Preferred Units plus an additional approximately 6.4 million common units to induce the exchange (the Inducement Premium). The value of the additional 6.4 million common units on the date of conversion was approximately \$37.7 million, of which \$26.7 million has been charged to non-controlling interest and \$11.0 million has been charged to retained earnings on the Company's consolidated balance sheet as at December 31, 2016.

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

In June 2016, Teekay Offshore issued 4.0 million of its 10.50% Series D Preferred Units, of which 1,040,000 of the Series D Preferred Units were purchased by Teekay. Teekay Offshore pays to holders of the Series D Preferred Units a cumulative, quarterly cash distribution in arrears at an annual rate of 10.50%. However, Teekay Offshore may elect, in its sole discretion, to pay the quarterly distributions for the first eight consecutive quarters following issuance in cash, common units (at a discount of 4% to the 10-trading day volume weighted average price ending on the distribution declaration date) or a combination of cash and common units (at the same discount), and thereafter the distributions will be paid in cash. The Series D Preferred Units have no mandatory redemption date, but they are redeemable at Teekay Offshore's option after June 29, 2021 for a 10% premium to the liquidation value and for a 5% premium to the liquidation value any time after June 29, 2022. The Series D Preferred Units are exchangeable into common units of Teekay Offshore at the option of the holder at any time after June 29, 2021, based on the greater of the 10-trading day volume weighted average price at the time of the notice of exchange or \$4.00. A change of control event involving the purchase of at least 90% of the common units would result in the Series D Preferred Units being redeemable for cash. As a result, the Series D Preferred Units, net of Teekay's units, are included on the Company's consolidated balance sheet as part of temporary equity which is above the equity section but below the liabilities section.

f) Other

The Company enters into indemnification agreements with certain Officers and Directors. In addition, the Company enters into other indemnification agreements in the ordinary course of business. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company maintains what it believes is appropriate liability insurance that reduces its exposure and enables the Company to recover future amounts paid up to the maximum amount of the insurance coverage, less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

## 16. Supplemental Cash Flow Information

a) The changes in operating assets and liabilities for the years ended December 31, 2016, 2015, and 2014, are as follows:

|                               | Year Ended December 31, |          |           |
|-------------------------------|-------------------------|----------|-----------|
|                               | 2016                    | 2015     | 2014      |
| Accounts receivable           | 96,497                  | (6,488 ) | 136,660   |
| Prepaid expenses and other    | 9,690                   | (10,607) | (1,618 )  |
| Accounts payable              | (10,705)                | (24,727) | (17,643 ) |
| Accrued liabilities and other | (57,149)                | 29,531   | (56,768 ) |
|                               | 38,333                  | (12,291) | 60,631    |

Cash interest paid, including realized interest rate swap settlements, during the years ended December 31, 2016, 2015, and 2014, totaled \$341.0 million, \$318.1 million and \$328.2 million, respectively. In addition, during the years ended December 31, 2016, 2015, and 2014, cash interest paid relating to interest rate swap amendments and terminations totaled \$8.1 million, \$10.9 million and \$1.3 million, respectively.

In 2016, the portion of the distributions paid in kind by Teekay Offshore to the unit holders of Series C-1 Preferred Units and Series D Preferred Units, of \$11.7 million was treated as a non-cash transaction in the consolidated statements of cash flows.

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As described in Note 3b, in August 2015, Teekay Tankers agreed to acquire 12 modern Suezmax tankers from Principal Maritime. As of December 31, 2015, all 12 of the vessels had been delivered for a total purchase price of \$661.3 million, consisting of \$612.0 million in cash and approximately 7.2 million shares of Teekay Tankers' Class A common stock or \$49.3 million, which was treated as a non-cash transaction in the consolidated statement of cash flows.

During 2014, the Company had several transactions treated as non-cash transactions in the consolidated statements of cash flows. The Company took ownership of three VLCCs with a fair value of \$222.0 million, which were collateral for all amounts owing under the investment in term loans, which was concurrently discharged. As described in Note 3f, Teekay LNG acquired BG's ownership interest in the BG Joint Venture. As compensation, Teekay LNG assumed BG's obligation to provide services for the four LNG carrier newbuildings up to their delivery dates. The estimated fair value of the assumed obligation of approximately \$33.3 million was used to offset the purchase price. The sales of the Huelva Spirit, and Algeciras Spirit conventional tankers resulted in the vessels under capital leases being returned to the owner and the capital lease obligations being concurrently extinguished. The portion of dividends declared by the Teekay Tangguh Joint Venture that was used to settle the advances made to BLT LNG Tangguh Corporation and P.T. Berlian Laju Tanker of \$14.4 million was treated as a non-cash transaction.

17. Vessel Sales, Asset Impairments and Provisions

a) Asset Impairments

During the fourth quarter of 2016, the carrying value of the Navion Marita was written down to its estimated fair value, using an appraised value, as a result of fewer opportunities to trade the vessel in the spot conventional tanker market. The Company's consolidated statement of income for the year ended December 31, 2016, includes a \$2.1 million write-down related to this vessel. The write-down is included in the Company's Teekay Offshore Segment - Offshore Logistics.

In 2016, Teekay Offshore canceled the UMS construction contracts for its two UMS newbuildings. As a result, the carrying values of these two UMS newbuildings were written down to \$nil. The Company's consolidated statement of income for the year ended December 31, 2016 includes a \$43.7 million write-down related to these two UMS newbuildings. The write-down is included in the Company's Teekay Offshore Segment - Offshore Logistics.

During 2015, seven of Teekay Offshore's 1990s-built shuttle tankers were written down to their estimated fair value, using appraised values. Of the seven shuttle tankers, during the first quarter of 2015, one shuttle tanker was written down as a result of the expected sale of the vessel and the vessel was classified as held for sale on the Company's consolidated balance sheet as at December 31, 2015. An additional shuttle tanker was written down during the first quarter of 2015 as a result of a change in the operating plan of the vessel. In the fourth quarter of 2015, the write-down of five shuttle tankers, which had an average age of 17.5 years, was the result of changes in Teekay Offshore's expectations of their future opportunities, primarily due to their advanced age. The Company's consolidated statement of income for the year ended December 31, 2015, includes total write-downs of \$66.7 million related to these seven shuttle tankers. The write-downs are included in the Company's Teekay Offshore Segment - Offshore Logistics.

b) Loan Loss Recoveries

During 2014, the Company reversed a \$2.5 million loss provision for an amount receivable related to an FPSO front-end engineering and design study completed in 2013, as this receivable was recovered in 2014.



c) Net (Loss) Gain on Sale of Vessels, Equipment and Other Operating Assets

The Company's sale of vessels generally consists of those vessels approaching the end of their useful lives as well as other vessels it strategically sells to reduce exposure to a certain vessel class.

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The following table shows the net (loss) gain on sale of vessels, equipment and other operating assets for the years ended December 31, 2016, 2015, and 2014:

| Segment  | Asset Type             | Completion of Sale Date | Net (Loss) Gain on Sale of Vessels, Equipment and Other Operating Assets |         |         |
|--|------------------------|-------------------------|--|---------|---------|
|  |                        |                         | Year Ended December 31,  |         |         |
|  |                        |                         | 2016   | 2015    | 2014    |
|  |                        |                         | \$   | \$      | \$      |
| Teekay Offshore Segment - Offshore Logistics   | FSO unit               | (1)                     | (983)  | —       | —       |
| Teekay Offshore Segment - Offshore Logistics   | Shuttle tanker         | Nov-16                  | 6,817  | —       | —       |
| Teekay Offshore Segment - Offshore Logistics   | Shuttle tanker         | Mar-15                  | —  | 1,643   | (4,759) |
| Teekay Offshore Segment - Offshore Logistics   | Shuttle tanker         | Oct-14                  | —  | —       | 3,121   |
| Teekay Offshore Segment - Conventional Tankers | 2 Conventional Tankers | Mar-16                  | 65   | (3,897) | —       |
| Teekay LNG Segment - Conventional Tankers      | Suezmax                | Mar-17                  | (11,537)   | —       | —       |
| Teekay LNG Segment - Conventional Tankers      | 2 Suezmaxes            | Apr/May-2016            | (27,439)   | —       | —       |
| Teekay Tankers Segment - Conventional Tankers  | 2 Suezmaxes            | Jan-17                  | (6,276)  | —       | —       |
| Teekay Tankers Segment - Conventional Tankers  | MR Tanker              | Nov-16                  | (8,094)  | —       | —       |
| Teekay Tankers Segment - Conventional Tankers  | MR Tanker              | Aug-16                  | (6,556)  | —       | —       |
| Teekay Tankers Segment - Conventional Tankers  | 2 VLCCs                | May-14                  | —  | —       | 9,955   |
| Teekay Parent Segment - Conventional Tankers   | VLCC                   | Oct-16                  | (12,495)   | —       | —       |
| Other  |                        |                         | 48   | (177)   | 433     |
| Total  |                        |                         | (66,450)   | (2,431) | 8,750   |

(1) This vessel is expected to be sold in 2017.

See Note 2 – Segment Reporting for the asset impairments, loan loss recoveries, and net (loss) gain on sale of vessels, equipment and other operating assets, by segment for 2016, 2015 and 2014.

## 18. (Loss) Earnings Per Share

|  | Year Ended December 31, |        |           |
|--|-------------------------|--------|-----------|
|  | 2016                    | 2015   | 2014      |
|  | \$                      | \$     | \$        |
| Net (loss) income attributable to shareholders of Teekay Corporation | (123,182 )              | 82,151 | (54,757 ) |
|  | (4,993 )                | —      | —         |

The Company's portion of the Inducement Premium and Exchange

Contribution charged to retained earnings by Teekay Offshore (note 15e)

|  |            |        |           |
|--|------------|--------|-----------|
| Net (loss) income attributable to shareholders of Teekay Corporation for basic income (loss) per share | (128,175 ) | 82,151 | (54,757 ) |
|--|------------|--------|-----------|

|  |       |        |   |
|--|-------|--------|---|
| Reduction in net earnings due to dilutive impact of stock-based compensation in Teekay LNG, Teekay Offshore and Teekay Tankers and Series C-1 Preferred Units in Teekay Offshore | (25 ) | (227 ) | — |
|--|-------|--------|---|

|  |            |        |           |
|--|------------|--------|-----------|
| Net (loss) income attributable to shareholders of Teekay Corporation for diluted income (loss) per share | (128,200 ) | 81,924 | (54,757 ) |
|--|------------|--------|-----------|

|  |            |            |            |
|--|------------|------------|------------|
| Weighted average number of common shares | 79,211,154 | 72,665,783 | 72,066,008 |
|--|------------|------------|------------|

|   |   |         |   |
|---|---|---------|---|
| Dilutive effect of stock-based compensation | — | 524,781 | — |
|---|---|---------|---|

|   |            |            |            |
|---|------------|------------|------------|
| Common stock and common stock equivalents | 79,211,154 | 73,190,564 | 72,066,008 |
|---|------------|------------|------------|

(Loss) Earnings per common share:

|           |         |      |         |
|-----------|---------|------|---------|
| - Basic   | (1.62 ) | 1.13 | (0.76 ) |
| - Diluted | (1.62 ) | 1.12 | (0.76 ) |

Stock-based awards, which have an anti-dilutive effect on the calculation of diluted loss per common share, are excluded from this calculation. For the years ended December 31, 2016 and 2015, options to acquire 3.8 million shares and 1.4 million shares of Common Stock, respectively, had an anti-dilutive effect on the calculation of diluted earnings per common share. In periods where a loss attributable to shareholders has been incurred all stock-based awards are anti-dilutive.

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## 19. Restructuring Charges

During 2016, the Company recorded restructuring charges of \$26.8 million (\$14.0 million – 2015, \$9.8 million - 2014).

The restructuring charges in 2016 primarily relate to the closure of two offices and seafarers' severance amounts related to the tug business in Western Australia, reorganization of the Company's FPSO business to create better alignment with the Company's offshore operations, and reductions to charges previously accrued. The charges related to the seafarers' severance were partly recovered from customers and the recovery is included in revenues on the consolidated statements of income.

The restructuring charges in 2015 relate to the termination of the employment of certain seafarers upon the expiration of a time-charter-out contract, the reorganization of the Company's marine operations and corporate services, and the change in crew on a vessel as requested by a charterer. The actual restructuring charges relating to the termination of the employment of certain seafarers upon the expiration of a time-charter-out contract and the change in crew on a vessel as requested by a charterer in the amount of \$8.4 million were fully reimbursed to the Company by the charterers and the net reimbursement is included in voyage revenues.

The restructuring charges in 2014 relate to the termination of the employment of certain seafarers upon the re-delivery of an in-chartered conventional tanker in December 2014 and upon the sale of a vessel under capital lease to a third party in August 2014, and the reflagging of one shuttle tanker which commenced in January 2014 and was completed in March 2014, partially offset by an adjustment to the accrual for costs related to the reorganization of the Company's marine operations.

At December 31, 2016 and 2015 \$5.6 million and \$3.2 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

## 20. Income Taxes

Teekay and a majority of its subsidiaries are not subject to income tax in the jurisdictions in which they are incorporated because they do not conduct business or operate in those jurisdictions. However, among others, the Company's U.K. and Norwegian subsidiaries are subject to income taxes.

The significant components of the Company's deferred tax assets and liabilities are as follows:

|   | December<br>31,<br>2016<br>\$ | December<br>31,<br>2015<br>\$ |
|---|-------------------------------|-------------------------------|
| Deferred tax assets:                      |                               |                               |
| Vessels and equipment                     | 40,928                        | 43,289                        |
| Tax losses carried forward <sup>(1)</sup> | 276,291                       | 321,648                       |
| Other                                     | 17,075                        | 22,141                        |
| Total deferred tax assets                 | 334,294                       | 387,078                       |
| Deferred tax liabilities:                 |                               |                               |
| Vessels and equipment                     | 5,974                         | 10,577                        |
| Long-term debt                            | 1,691                         | 3,218                         |
| Other                                     | 11,626                        | 15,090                        |
| Total deferred tax liabilities            | 19,291                        | 28,885                        |
| Net deferred tax assets                   | 315,003                       | 358,193                       |

## Explanation of Responses:

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|                         |           |           |
|-------------------------|-----------|-----------|
| Valuation allowance     | (290,015) | (322,491) |
| Net deferred tax assets | 24,988    | 35,702    |

Net deferred tax assets are presented in other non-current assets and other long term liabilities in the accompanying consolidated balance sheets. Certain of the balances in the comparative columns above have been adjusted with no impact on the amount of the net deferred tax assets.

Substantially all of the Company's net operating loss carryforwards of \$1.26 billion relate primarily to its Norwegian, U.K., Spanish, and Luxembourg subsidiaries and, to a lesser extent, to its Australian ship-owning subsidiaries. These net operating loss carryforwards are available to offset future taxable income in the respective jurisdictions, and can be carried forward indefinitely. The Company also has \$36.4 million in disallowed finance costs that relate to its Spanish subsidiaries and are available to offset future taxable income in Spain and can also be carried forward indefinitely.

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The components of the provision for income taxes are as follows:

|                               | Year<br>Ended<br>December<br>31,<br>2016<br>\$ | Year<br>Ended<br>December<br>31,<br>2015<br>\$ | Year<br>Ended<br>December<br>31,<br>2014<br>\$ |
|-------------------------------|--|--|--|
| Current                       | (14,424 )                                      | (10,440 )                                      | (6,460 )                                       |
| Deferred                      | (10,044 )                                      | 27,207   | (3,713 )                                       |
| Income tax (expense) recovery | (24,468 )                                      | 16,767   | (10,173 )                                      |

The Company operates in countries that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. Reconciliations of the tax charge related to the relevant year at the applicable statutory income tax rates and the actual tax charge related to the relevant year are as follows:

|   | Year<br>Ended<br>December<br>31,<br>2016<br>\$ | Year<br>Ended<br>December<br>31,<br>2015<br>\$ | Year<br>Ended<br>December<br>31,<br>2014<br>\$ |
|---|--|--|--|
| Net income before taxes   | 111,132  | 388,693  | 134,175  |
| Net income (loss) not subject to taxes  | 57,862   | 252,604  | (80,454 )                                      |
| Net income subject to taxes   | 53,270   | 136,089  | 214,629  |
| At applicable statutory tax rates   | 5,996  | 32,750   | 39,382   |
| Permanent and currency differences, adjustments to valuation allowances and uncertain tax positions | 18,198   | (49,789 )                                      | (28,027 )                                      |
| Other   | 274  | 272  | (1,182 )                                       |
| Tax expense (recovery) related to the current year  | 24,468   | (16,767 )                                      | 10,173   |

The following is a roll-forward of the Company's unrecognized tax benefits, recorded in other long-term liabilities, from January 1, 2014 to December 31, 2016:

|  | Year<br>Ended<br>December<br>31,<br>2016<br>\$ | Year<br>Ended<br>December<br>31,<br>2015<br>\$ | Year<br>Ended<br>December<br>31,<br>2014<br>\$ |
|--|--|--|--|
| Balance of unrecognized tax benefits as at January 1   | 18,390   | 20,335   | 20,304   |
| Increases for positions related to the current year    | 6,422  | 4,578  | 3,643  |
| Changes for positions taken in prior years             | (3,729 )                                       | (2,965 )                                       | 1,015  |
| Decreases related to statute of limitations            | (1,591 )                                       | (3,558 )                                       | (4,627 )                                       |
| Balance of unrecognized tax benefits as at December 31 | 19,492   | 18,390   | 20,335   |

The majority of the net increase for positions relates to the potential tax on freight income on an increased number of voyages for the year ended December 31, 2016.

The Company does not presently anticipate such uncertain tax positions will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected. The tax years 2007 through 2016 remain open to examination by some of the major jurisdictions in which the Company is subject to tax.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The interest and penalties on unrecognized tax benefits are included in the roll-forward schedule above and are approximately an increase of \$1.2 million in 2016, net of statute barred liabilities, and a reduction of \$0.3 million in 2015 and \$1.6 million in 2014.

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## 21. Pension Benefits

## a) Defined Contribution Pension Plans

With the exception of certain of the Company's employees in Australia and Norway, the Company's employees are generally eligible to participate in defined contribution plans. These plans allow for the employees to contribute a certain percentage of their base salaries into the plans. The Company matches all or a portion of the employees' contributions, depending on how much each employee contributes. During the years ended December 31, 2016, 2015, and 2014, the amount of cost recognized for the Company's defined contribution pension plans was \$13.5 million, \$15.2 million and \$13.9 million, respectively.

## b) Defined Benefit Pension Plans

The Company has a number of defined benefit pension plans (or the Benefit Plans) which primarily cover certain employees in Norway and Australia. As at December 31, 2016, approximately 65% of the defined benefit pension assets were held by the Norwegian plans and approximately 35% were held by the Australian plan. The pension assets in the Norwegian plans have been guaranteed a minimum rate of return by the provider, thus reducing potential exposure to the Company to the extent the provider honors its obligations.

The following table provides information about changes in the benefit obligation and the fair value of the Benefit Plans assets, a statement of the funded status, and amounts recognized on the Company's balance sheets:

|  | Year<br>Ended<br>December<br>31, 2016<br>\$ | Year<br>Ended<br>December<br>31, 2015<br>\$ |
|--|---|---|
| Change in benefit obligation:          |   |   |
| Beginning balance                      | 82,415                                      | 121,604                                     |
| Service cost                           | 5,372                                       | 7,726                                       |
| Interest cost                          | 2,270                                       | 2,532                                       |
| Contributions by plan participants     | 99  | 365   |
| Actuarial (gain) loss                  | (2,943 )                                    | (9,165 )                                    |
| Benefits paid                          | (7,979 )                                    | (9,651 )                                    |
| Plan settlements and amendments        | (34,725 )                                   | (14,891 )                                   |
| Foreign currency exchange rate changes | 893   | (16,001 )                                   |
| Other                                  | (95 )                                       | (104 )                                      |
| Ending balance                         | 45,307                                      | 82,415                                      |
| Change in fair value of plan assets:   |   |   |
| Beginning balance                      | 73,075                                      | 97,158                                      |
| Actual return on plan assets           | 664   | 2,221                                       |
| Contributions by the employer          | 5,517                                       | 7,858                                       |
| Contributions by plan participants     | 99  | 365   |
| Benefits paid                          | (7,974 )                                    | (9,646 )                                    |
| Plan settlements and amendments        | (28,887 )                                   | (11,420 )                                   |
| Plan assets assumed on acquisition     | —   | 203   |
| Foreign currency exchange rate changes | 726   | (13,096 )                                   |
| Other                                  | (445 )                                      | (568 )                                      |
| Ending balance                         | 42,775                                      | 73,075                                      |
| Funded status deficiency               | (2,532 )                                    | (9,340 )                                    |

Explanation of Responses:



Amounts recognized in the balance sheets:

|                             |       |       |
|-----------------------------|-------|-------|
| Other long-term liabilities | 2,532 | 9,340 |
|-----------------------------|-------|-------|

Accumulated other comprehensive loss:

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Net actuarial losses <sup>(1)</sup> | (13,775 ) | (17,374 ) |
|-------------------------------------|-----------|-----------|

(1) As at December 31, 2016, the estimated amount that will be amortized from accumulated other comprehensive (loss) income into net periodic benefit cost in 2016 is \$0.5 million.

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As of December 31, 2016 and 2015, the accumulated benefit obligations for the Benefit Plans were \$38.9 million and \$67.1 million, respectively. The following table provides information for those pension plans with a benefit obligation in excess of plan assets and those pension plans with an accumulated benefit obligation in excess of plan assets:

|                                | December<br>31, 2016 | December<br>31, 2015 |
|--------------------------------|----------------------|----------------------|
|                                | \$                   | \$                   |
| Benefit obligation             | 29,737               | 61,124               |
| Fair value of plan assets      | 26,296               | 50,517               |
| Accumulated benefit obligation | 828                  | 1,821                |
| Fair value of plan assets      | —                    | 925                  |

The components of net periodic pension cost relating to the Benefit Plans for the years ended December 31, 2016, 2015 and 2014 consisted of the following:

|                                    | Year<br>Ended<br>December<br>31, 2016 | Year<br>Ended<br>December<br>31, 2015 | Year<br>Ended<br>December<br>31, 2014 |
|------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                                    | \$                                    | \$                                    | \$                                    |
| Net periodic pension cost:         |                                       |                                       |                                       |
| Service cost                       | 5,372                                 | 7,726                                 | 8,800                                 |
| Interest cost                      | 2,270                                 | 2,532                                 | 4,975                                 |
| Expected return on plan assets     | (2,718 )                              | (2,895 )                              | (5,333 )                              |
| Amortization of net actuarial loss | 469                                   | 1,538                                 | 7,148                                 |
| Plan settlement                    | (3,899 )                              | (140 )                                | (3,332 )                              |
| Other                              | 445                                   | 568                                   | 557                                   |
| Net cost                           | 1,939                                 | 9,329                                 | 12,815                                |

The components of other comprehensive income (loss) relating to the Plans for the years ended December 31, 2016, 2015 and 2014 consisted of the following:

|   | Year<br>Ended<br>December<br>31, 2016 | Year<br>Ended<br>December<br>31, 2015 | Year<br>Ended<br>December<br>31, 2014 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
|   | \$                                    | \$                                    | \$                                    |
| Other comprehensive income (loss):        |                                       |                                       |                                       |
| Net gain (loss) arising during the period | 7,035                                 | 13,288                                | (14,954 )                             |
| Amortization of net actuarial loss        | 469                                   | 1,538                                 | 7,148                                 |
| Plan settlement                           | (3,905 )                              | (140 )                                | (3,332 )                              |
| Total income (loss)                       | 3,599                                 | 14,686                                | (11,138 )                             |

The Company estimates that it will make contributions into the Benefit Plans of \$2.4 million during 2017. The following table provides the estimated future benefit payments, which reflect expected future service, to be paid by the Benefit Plans:

| Year        | Pension<br>Benefit<br>Payments<br>\$ |
|-------------|--------------------------------------|
| 2017        | 2,497                                |
| 2018        | 2,156                                |
| 2019        | 2,098                                |
| 2020        | 2,123                                |
| 2021        | 2,129                                |
| 2021 – 2025 | 11,908                               |
| Total       | 22,911                               |

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The fair value of the plan assets, by category, as of December 31, 2016 and 2015 were as follows:

|                       | Year<br>Ended<br>December<br>31, 2016<br>\$ | Year<br>Ended<br>December<br>31, 2015<br>\$ |
|-----------------------|---|---|
| Pooled Funds          | 28,012                                      | 52,150                                      |
| Mutual Funds          |   |   |
| Equity investments    | 7,972                                       | 11,089                                      |
| Debt securities       | 1,772                                       | 2,512                                       |
| Real estate           | 1,919                                       | 2,929                                       |
| Cash and money market | 1,181                                       | 1,674                                       |
| Other                 | 1,919                                       | 2,720                                       |
| Total                 | 42,775                                      | 73,075                                      |

- (1) The Company does not control the investment mix or strategy of the pooled funds. The pooled funds guarantee a minimum rate of return. If actual investment returns are less than the guarantee minimum rate, then the provider's statutory reserves are used to top up the shortfall. The pooled funds primarily invest in hold to maturity bonds, real estate and other fixed income investments, which are expected to provide a stable rate of return.
- (2) The mutual funds primary aim is to provide investors with an exposure to a diversified mix of predominantly growth oriented assets (56%) with moderate to high volatility and some defensive assets (44%).

The investment strategy for all plan assets is generally to actively manage a portfolio that is diversified among asset classes, markets and regions. Certain of the investment funds do not invest in companies that do not meet certain socially responsible investment criteria. In addition to diversification, other risk management strategies employed by the investment funds include gradual implementation of portfolio adjustments and hedging currency risks.

The Company's plan assets are primarily invested in commingled funds holding equity and debt securities, which are valued using the net asset value (or NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares or units outstanding. Commingled funds are classified within Level 2 of the fair value hierarchy as the NAVs are not publicly available.

The Company has a pension committee that is comprised of various members of senior management. Among other things, the Company's pension committee oversees the investment and management of the plan assets, with a view to ensuring the prudent and effective management of such plans. In addition, the pension committee reviews investment manager performance results annually and approves changes to the investment managers.

The weighted average assumptions used to determine benefit obligations at December 31, 2016 and 2015 were as follows:

|                               | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Discount rates                | 2.9%              | 3.0%              |
| Rate of compensation increase | 2.5%              | 3.4%              |

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The weighted average assumptions used to determine net pension expense for the years ended December 31, 2016, 2015 and 2014 were as follows:

|                                    | Year Ended<br>December 31, 2016 | Year Ended<br>December 31, 2015 | Year Ended<br>December 31, 2014 |
|------------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                    | \$                              | \$                              | \$                              |
| Discount rates                     | 2.9%                            | 3.0%                            | 2.9%                            |
| Rate of compensation increase      | 2.5%                            | 3.4%                            | 4.2%                            |
| Expected long-term rates of return | 4.2%                            | 4.0%                            | 4.0%                            |

To the extent the expected return on plan assets varies from the actual return, an actuarial gain or loss results. The expected long-term rates of return on plan assets are based on the estimated weighted-average long-term returns of (1) major asset classes. In determining asset class returns, the Company takes into account long-term returns of major asset classes, historical performance of plan assets, as well as the current interest rate environment. The asset class returns are weighted based on the target asset allocations.

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22. Equity-accounted Investments

In December 2015, Teekay LNG entered into a joint venture agreement with Nogaholding, GIC, and Samsung to form a joint venture, the Bahrain LNG Joint Venture, for the development of an LNG receiving and regasification terminal in Bahrain and the supply of a FSU vessel. The Bahrain LNG Joint Venture is a joint venture between Nogaholding (30%), Teekay LNG (30%), GIC (24%), and Samsung (16%). The project will include an offshore LNG receiving jetty and breakwater, an adjacent regasification platform, subsea gas pipelines from the platform to shore, an onshore gas receiving facility, and an onshore nitrogen production facility with a total LNG terminal capacity of 800 million standard cubic feet per day and will be owned and operated under a 20-year agreement commencing in early-2019 with an estimated fully built-up cost of approximately \$960.0 million which is expected to be funded by the Bahrain LNG Joint Venture through a combination of equity capital and project-level debt through a consortium of regional and international banks. In addition, Teekay LNG will supply a FSU vessel in connection with this project, which will be modified from one of the nine MEGI LNG carrier newbuildings ordered from DSME through a 20-year time-charter contract with the Bahrain LNG Joint Venture (see Note 3a).

As at December 31, 2016, Teekay LNG had advanced \$62.9 million (December 31, 2015 – \$nil) to the Bahrain LNG Joint Venture. These advances bear interest at LIBOR plus 1.25% and as at December 31, 2016, the interest accrued on these advances was \$0.1 million (December 31, 2015 – \$nil).

In October 2014, Teekay Offshore sold a 1995-built shuttle tanker, the Navion Norvegia, to the OOG-TK Libra GmbH & Co KG (or Libra Joint Venture), a 50/50 joint venture with OOG. The vessel is committed to a new FPSO unit conversion for the Libra field located in the Santos Basin offshore Brazil. The conversion project will be completed at Sembcorp Marine's Jurong Shipyard in Singapore and the FPSO unit is scheduled to commence operations in mid-2017 under a 12-year fixed-rate contract with Petrobras (see Note 15b).

In July 2014, Teekay LNG, entered into a 50/50 joint venture (or the Yamal LNG Joint Venture) with China LNG and ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia (or the Yamal LNG Project) (See Note 3e).

In June 2014, Teekay LNG acquired from BG (which was subsequently acquired by Shell) its ownership interests in four 174,000-cubic meter Tri-Fuel Diesel Electric LNG carrier newbuildings, which will be constructed by Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. in China for an estimated total fully built-up cost to the joint venture of approximately \$1.0 billion. The vessels, upon delivery, which are scheduled between September 2017 and January 2019, will each operate under 20-year fixed-rate time-charter contracts, plus extension options, with Methane Services Limited, a wholly-owned subsidiary of BG (see Note 3f).

In January 2014, Teekay and Teekay Tankers formed TIL, which seeks to opportunistically acquire, operate and sell modern second-hand tankers to benefit from an expected recovery in the current cyclical low of the tanker market. Teekay and Teekay Tankers in the aggregate purchased 5.0 million shares of common stock, representing an initial 20% interest in TIL, as part of a \$250 million private placement by TIL, which represents a total investment by Teekay and Teekay Tankers of \$50.0 million. In October 2014, Teekay Tankers acquired an additional 0.9 million common shares in TIL, representing 2.43% of the then outstanding share capital of TIL. In October 2014, TIL authorized a share repurchase program for up to \$30 million and in September 2015, TIL authorized an increase in its share repurchase program to \$60 million. As of December 31, 2016, TIL has repurchased \$87.6 million of its shares at an average price of NOK 88.31 per share. The Company's combined interests of Teekay and Teekay Tankers in TIL were 19.55% as at December 31, 2016 (December 31, 2015 - 17.62%) (see Note 3h). As of December 31, 2016, the aggregate value of the Company's investment in TIL, based on the quoted market price of TIL's common stock on the

Oslo Stock Exchange was \$24.7 million (December 31, 2015 - \$72.8 million).

In June 2013, Teekay Offshore completed the acquisition from Teekay of its 50% interest in a FPSO unit, the Cidade de Itajai (or Itajai). The Itajai FPSO has been operating on the Baúna and Piracaba (previously named Tiro and Sidon) fields in the Santos Basin offshore Brazil since February 2013 under a nine-year fixed-rate time-charter contract, plus extension options, with Petrobras. The remaining 50% interest in the Itajai FPSO unit is owned by OOG.

In February 2013, Teekay LNG entered into a joint venture agreement with Exmar to own and charter-in LPG carriers with a primary focus on the mid-size gas carrier segment. Exmar LPG BVBA (or the Exmar LPG Joint Venture), took economic effect as of November 1, 2012 and, as of December 31, 2016, its fleet included 19 LPG carriers and four LPG carrier newbuildings scheduled for delivery in 2017 and 2018. For Teekay LNG's 50% ownership interest in the joint venture, including newbuilding payments made prior to the November 1, 2012 economic effective date of the joint venture, Teekay LNG invested \$133.1 million in exchange for equity and a shareholder loan and assumed approximately \$108 million of its pro rata share of existing debt and lease obligations as of the economic effective date. These debt and lease obligations are secured by certain vessels in the Exmar LPG Joint Venture fleet. The excess of the book value of net assets acquired over Teekay LNG's investment in the Exmar LPG Joint Venture, which amounted to approximately \$6.0 million, has been accounted for as an adjustment to the value of the vessels, charter agreements and lease obligations of the Exmar LPG Joint Venture and recognition of goodwill, in accordance with the final purchase price allocation. Control of the Exmar LPG Joint Venture is shared equally between Exmar and Teekay LNG. Teekay LNG accounts for its investment in the Exmar LPG Joint Venture using the equity method.

Teekay LNG has a 52% ownership interest in the joint venture between Marubeni Corporation and Teekay LNG (or the Teekay LNG-Marubeni Joint Venture), which owns six LNG carriers. Since control of the Teekay LNG-Marubeni Joint Venture is shared jointly between Marubeni and Teekay LNG, Teekay LNG accounts for its investment in the Teekay LNG-Marubeni Joint Venture using the equity method.

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Teekay LNG has a 33% ownership interest in the Angola Joint Venture that owns four newbuilding 160,400-cubic meter LNG carriers (or the Angola LNG Carriers). The Angola LNG Carriers are chartered at fixed rates to the Angola LNG Project. The High-Q Joint Venture is a joint venture arrangement between Teekay Tankers and Wah Kwong Maritime Transport Holdings Limited (or Wah Kwong) whereby Teekay Tankers holds a 50% interest. The RasGas 3 Joint Venture is a joint venture arrangement between Teekay LNG and QGTC Nakilat (1643-6) Holdings Corporation whereby Teekay LNG holds a 40% interest. The RasGas 3 Joint Venture owns four LNG carriers and related long-term fixed-rate time charters to service the expansion of a LNG project in Qatar. Teekay LNG has ownership interests ranging from 49% to 50% in its joint ventures with Exmar (or the Exmar LNG Joint Venture) which owns two LNG carriers that are chartered out under long term contracts.

In November 2011, Teekay acquired a 40% interest in a recapitalized Sevan for approximately \$25 million. Sevan owns (i) two partially-completed hulls available for upgrade to FPSOs or other offshore projects; (ii) a licensing agreement with ENI SpA; (iii) an engineering and offshore project development business; and (iv) intellectual property rights, including offshore unit design patents. As of December 31, 2016, the aggregate value of the Company's 43% interest (43% interest — December 31, 2015) in Sevan, based on the quoted market price of Sevan's common stock on the Oslo Stock Exchange, was \$44.9 million (\$44.9 million – December 31, 2015).

A condensed summary of the Company's investments in equity-accounted investees by segment is as follows (in thousands of U.S. dollars, except percentages):

| Investments in Equity-accounted Investees <sup>(1)</sup> | Ownership Percentage | As at December 31, |           |
|--|----------------------|--------------------|-----------|
|  |                      | 2016               | 2015      |
|  |                      | \$                 | \$        |
| Teekay Offshore - Offshore Production                    |                      |                    |           |
| Libra Joint Venture                                      | 50%                  | 69,972             | 17,952    |
| Itajai   | 50%                  | 71,827             | 59,692    |
| Teekay LNG - Liquefied Gas                               |                      |                    |           |
| Angola LNG Carriers                                      | 33%                  | 63,673             | 56,203    |
| BG (note 3f)   | 20% - 30%            | 33,594             | 25,574    |
| Exmar LNG Joint Venture                                  | 50%                  | 79,577             | 77,844    |
| Exmar LPG Joint Venture                                  | 50%                  | 165,064            | 163,730   |
| RasGas3 Joint Venture                                    | 40%                  | 173,037            | 160,684   |
| Teekay LNG - Marubeni Joint Venture                      | 52%                  | 294,764            | 283,589   |
| Yamal LNG Joint Venture (note 3e)                        | 50%                  | 152,927            | 100,084   |
| Bahrain LNG Joint Venture                                | 30%                  | 64,003             | —         |
| Teekay Tanker - Conventional Tankers                     |                      |                    |           |
| TIL (note 3h)  | 11%                  | 47,710             | 44,195    |
| High Q Joint Venture                                     | 50%                  | 22,025             | 21,166    |
| Teekay Parent - Offshore Production                      |                      |                    |           |
| Sevan  | 43%                  | 22,180             | 22,581    |
| Teekay Parent - Conventional Tankers                     |                      |                    |           |
| TIL (note 3h)  | 8%                   | 36,699             | 34,224    |
| Other  | 50%                  | 2,802              | 16,072    |
|  |                      | 1,299,854          | 1,083,590 |

(1) Investments in equity-accounted investees is presented in prepaid expenses and other, loans to equity-accounted investees, equity-accounted investments and accrued liabilities and other in the Company's consolidated balance



sheets.

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A condensed summary of the Company's financial information for equity-accounted investments (18% to 52% owned) shown on a 100% basis are as follows:

|   | As at December 31, |           |
|---|--------------------|-----------|
|   | 2016               | 2015      |
| Cash and restricted cash  | 500,355            | 386,727   |
| Other assets - current  | 150,378            | 162,414   |
| Vessels and equipment   | 4,655,170          | 3,936,718 |
| Net investment in direct financing leases                             | 1,776,954          | 1,813,991 |
| Other assets - non-current  | 74,096             | 80,987    |
| Current portion of long-term debt and obligations under capital lease | 360,942            | 345,336   |
| Other liabilities - current and obligations under capital lease       | 160,312            | 162,076   |
| Long-term debt and obligations under capital lease                    | 4,208,214          | 3,459,187 |
| Other liabilities - non-current                                       | 213,060            | 447,947   |

|   | Year Ended December 31, |           |                     |
|---|-------------------------|-----------|---------------------|
|   | 2016                    | 2015      | 2014 <sup>(1)</sup> |
| Revenues  | 882,650                 | 985,318   | 998,655             |
| Income from vessel operations                                 | 365,472                 | 433,023   | 454,135             |
| Realized and unrealized (loss) gain on derivative instruments | (10,900 )               | (38,955 ) | (58,884 )           |
| Net income  | 239,766                 | 275,259   | 300,837             |

Certain of the comparative figures have been adjusted to conform to the presentation adopted in the current year.

(1)The results included for TIL are from the date of incorporation in January 2014.

For the year ended December 31, 2016, the Company recorded equity income of \$85.6 million (2015 – \$102.9 million and 2014 - \$128.1 million). The income was primarily comprised of the Company's share of net income (loss) from the Teekay LNG-Marubeni Joint Venture, Angola LNG Project, the RasGas 3 Joint Venture, Exmar LNG Joint Venture, Exmar LPG BVBA, and from the interest in the Itajai. For the year ended December 31, 2016, \$8.7 million of the equity gain related to the Company's share of unrealized gain (loss) on interest rate swaps associated with these projects (2015 – \$5.9 million and 2014 - \$1.1 million).

## 23. Subsequent Events

On January 23, 2017, Teekay LNG issued in the Norwegian bond market NOK 300 million (equivalent to approximately \$36 million) in new senior unsecured bonds through an add-on to its existing NOK bonds due in a) October 2021, priced at 103.75% of face value. All principal and interest payments have been economically swapped into U.S. Dollars with a fixed interest rate of 7.69%.

In late October 2016, Teekay Tankers entered into agreements to sell two Suezmax tankers, the Ganges Spirit and the Yamuna Spirit, for an aggregate sales price of \$33.8 million. The Ganges Spirit completed its sale in January b) 2017. The vessel was classified as held for sale on the consolidated balance sheet as at December 31, 2016 and its net book value was written down to its sales price. In February 2017 the sales price of the Yamuna Spirit was reduced to \$15.7 million and delivery to its new owner was completed in March 2017.

In January 2017 Teekay Tankers sold approximately 3.8 million shares of its Class A common stock under its COP for net proceeds of \$8.6 million, net of issuance costs. In addition, Teekay Tankers issued 2.2 million new shares of c) its Class A common stock to Teekay in a private placement for gross proceeds of \$5.0 million and the price per share was set to equal the weighted average price of Teekay Tankers' Class A common stock for the ten trading days ending on the date of issuance.

d) On February 28, 2017, Teekay LNG took delivery of its third MEGI LNG carrier newbuilding, the Torben Spirit, which commenced its 10-month plus one-year option charter contract with a major energy company on March 3, 2017. Teekay LNG partially financed this MEGI LNG carrier newbuilding through a sales-leaseback transaction of approximately \$125 million.

e) On December 21, 2016, the RasGas 3 Joint Venture, of which Teekay LNG has a 40% ownership interest, completed its debt refinancing by entering into a \$723 million secured term loan facility maturing in 2026 which replaced its outstanding term loan of \$610 million. As a result, the RasGas 3 Joint Venture distributed \$100 million in February 2017 to its shareholders, of which Teekay LNG's proportionate share was \$40 million.

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On March 31, 2017, the Teekay LNG-Marubeni Joint Venture completed the refinancing of its existing \$396 million debt facility by entering into a new \$335 million U.S. Dollar-denominated term loan maturing in September 2019.

The term loan is collateralized by first-priority statutory mortgages over the Marib Spirit, Arwa Spirit, Methane f) Spirit and Magellan Spirit, first priority pledges or charges of all the issued shares of the respective vessel owning subsidiaries, and guaranteed by Teekay LNG and Marubeni Corporation on a several basis. As part of the completed refinancing, Teekay LNG invested \$57 million of additional equity, based on its proportionate ownership interest, into the Teekay LNG-Marubeni Joint Venture.

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