Teekay Shipping Corporation
Annual Report 1998

Teekay Shipping Corporation is dedicated to being the first choice for quality-conscious customers in the shipping industry. The Company owns and manages the world's largest and most modern fleet of medium-sized tankers, operating primarily in the Indo-Pacific Basin. Teekay maintains a continuous presence in the world tanker market and employs approximately 2,000 people in its shore offices and sea-going operations. The Company's Common Stock is listed on the New York Stock Exchange and trades under the symbol TK.

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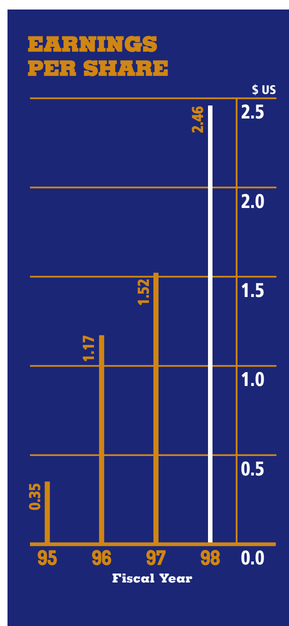
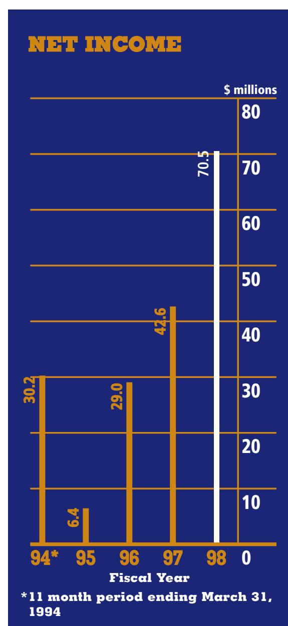
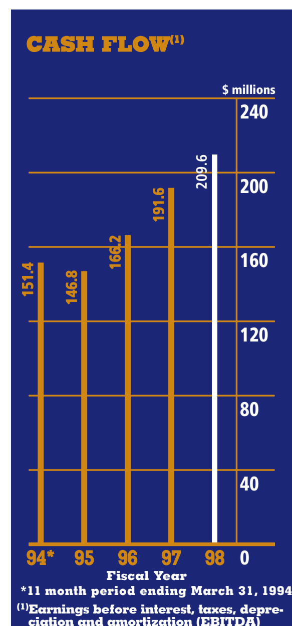
Teekay Shipping Corporation's Annual General Meeting will take place on September 2, 1998 at 10:00 am at the Royal Automobile Club, 89 Pall Mall, London, England.

	Year ended March 31, 1998	Year ended March 31, 1997
Income Statement Data		
Net voyage revenues	$ 305,260	$ 280,212
Net income	70,504	42,630
Balance Sheet Data		
Total assets	1,460,183	1,372,838
Total stockholders' equity	689,455	629,815
Per Share Data		
Net income per share	2.46	1.52
Weighted average shares		
outstanding (thousands)	28,655	28,138
Other Financial Data		
EBITDA	209,582	191,632
Net debt to capitalization (%)	46.9	48.0
Capital expenditures:		
Vessel purchases, gross	197,199	65,104
Drydocking	12,409	23,124
Operating cash flow per ship per day	12,664	11,819





*11 month period ending March 31, 1994



*11 month period ending March 31, 1994
[1]Earnings before interest, taxes, depreciation and amortization (EBITDA)

A message from Axel Karlshoej, Chairman of the Board of Directors

This year marks the 25th anniversary of the founding of Teekay Shipping Corporation. As Chairman of the Board, it is a great pleasure for me to celebrate the Company's achievements and pay tribute to those who have contributed to its 25 years of success.

Teekay has a well-founded reputation for excellence that marks every aspect of its operations and distinguishes the Company among its industry peers. Both our customers and our competitors recognize the unique spirit of Teekay that appears in the dedication and professionalism of people across the Company, and in the meticulous attention to the highest standards of quality and safety. That spirit is the legacy of our founder, and my brother, Torben Karlshoej, a legacy which we are proud to carry on.

The years immediately following the loss of Torben in 1992 were difficult ones for Teekay. I would like to express my personal appreciation and that of the Board of Directors to Captain Jim Hood for his leadership during that challenging period. Over the past six years, the senior management team, led by Jim Hood, has instituted some important changes. The Company's financial position has been strengthened and Teekay has successfully made the transition from a private to a public company. The efforts of those years have secured Teekay's unique position of strength in the shipping industry.

The past year has been particularly important for Teekay in terms of preparing for the next stage of its growth. We have significantly expanded the scope of our value-added services to customers in Australia, and have devoted much effort to strategic planning. Changes in the senior management team have also been part of the Company's preparation for future growth. I am pleased to announce that, following Jim Hood's retirement, Bjorn Moller, our former Chief Operating Officer, took on the role of President and Chief Executive Officer, effective March 31, 1998.

As Teekay celebrates 25 years as a quality leader in oil transportation services, the Company has all the elements in place for continued success: a modern, well-equipped fleet, strong financial resources and the people to support growth. Under the direction of our experienced, knowledgeable management team, I am confident that the achievements of the years ahead will yield rewards for the Company and its shareholders.

Axel Karlshoej
Chairman of the Board
June 8, 1998

Teekay's reputation for excellence distinguishes the Company among its industry peers.

We are building our vision of Teekay's future.

A message from Bjorn Moller, President and Chief Executive Officer

Fiscal 1998 was an excellent year for Teekay – financially, operationally and strategically. The Company continued to improve its financial performance, recording the best results since fiscal 1992. It was also a year of building for the future, with profitable growth and strategic planning among our most important achievements.

Solid Financial Performance

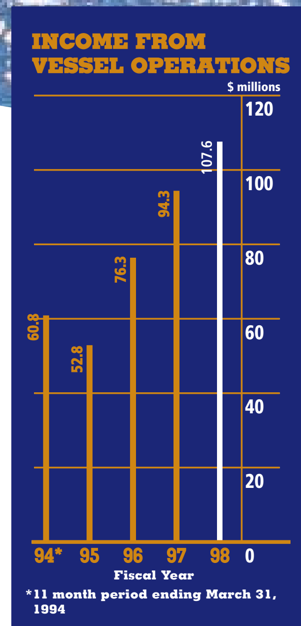
Net voyage revenues rose by 8.9 percent in fiscal 1998 to $305.3 million, and net income by over 65 percent to $70.5 million, or $2.46 per share compared to $1.52 per share for fiscal 1997. Operating cash flow on a per ship per day basis increased by 7.1 percent from $11,819 in fiscal 1997 to $12,664 in fiscal 1998.

Several factors contributed to our solid financial performance. Rising oil consumption worldwide created an increased demand for tankers, while tanker supply remained unchanged. At approximately 70 percent, Teekay's fleet utilization rate remained high. On the cost side, Teekay continues to achieve some of the lowest operating costs in the industry by maintaining tight cost controls and substantial economies of scale. We also took advantage of our strong financial position to reduce interest expense. We are pleased with the fiscal 1998 results, in terms of both the figures and the Company's performance relative to the industry.

Strong Core Operations

In fiscal 1998, we continued to focus our operations in our core business segments: the Indo-Pacific Basin, primarily Japan, Australia and the U.S. West Coast. The Company is well recognized as the leading oil transportation supplier in these quality-sensitive markets due to its consistently high level of service, reliability and safety. We have close working relationships with the world's major oil companies which we continued to strengthen in fiscal 1998.

During the past year, Teekay continued to take a proactive approach to critical industry issues. In March 1998, the Company was the first independent tanker operator to conduct an oil spill response drill in Australia, an area of extremely high envir-



Profitable growth and strategic planning were among this year's most important achievements.

The past year was significant for Teekay from a strategic viewpoint.

onmental sensitivity. We have also put oil spill response contingency plans into place in our other key trading areas.

The Fleet

At March 31, 1998, our fleet stood at 46 ships of 4.6 million deadweight tons. The fleet is certified to be in compliance with the International Safety Management code which comes into effect July 1, 1998.

In fiscal 1998, we continued to modernize our fleet, selling three older tankers and replacing them with eight newer vessels, two of which are time-chartered-in. The result is that our fleet is even more homogenous than before, and the average age of our ships is 7.8 years, compared to the average age of the world oil tanker fleet of approximately 13.7 years. As part of Teekay's commitment to maintaining a modern fleet, the Company has ordered two large, double-hull Aframax newbuildings from Samsung Heavy Industries for delivery in 1999. The Company also holds options for further newbuildings.

A Year of Strategic Growth

Our success as a leading provider of transportation services to major oil companies has been based on a highly focused business strategy. By concentrating the world's largest modern fleet of Aframax tankers in the quality-sensitive areas of the Indo-Pacific Basin, and maintaining integrated marine operations, we have established a position that is unique in our industry. Over the past year, we took advantage of several growth opportunities that were directly related to this position.

Strategic Projects in Australia

Teekay's acquisition of the entire marine operation of Caltex Australia Petroleum Pty. Ltd. (CAPPL, formerly APPL) is an example of this type of achievement. In December 1997, Teekay acquired CAPPL's two product tankers and staff of 156 sea-going and on-shore employees. Under profitable contracts varying in length up to 13 years, the Company provides CAPPL with world-class, cost-effective operations and comprehensive service for four tankers.

This agreement demonstrates Teekay's ability to act as an outsourcing partner for oil companies in tanker operations. It has also brought Teekay closer to Caltex, one of Asia's largest refiners, which is jointly owned by Chevron and Texaco.

The Australian tanker acquisition was followed by another example of leveraging Teekay's position to secure a long-term value-added contract. The Company's reputation for operational excellence and safety was key to securing a long-term agreement with Apache Energy to convert a Teekay Aframax for use as an off-shore floating storage and off-take (FSO) unit for the Stag Field in Australia. Teekay has entered into a profitable contract to operate the FSO for eight to fourteen years.

Strategic Contracts of Affreightment

During the past year, the Company expanded its activity in strategic contracts of affreightment involving the Australian and other markets. These contracts are structured around Teekay's unique scheduling ability and provide our customers with a volume and flexibility of transportation that cannot be offered by other service providers. The close customer relationships that result from this type of contract offer potential for future growth.

Previously, spot market trading accounted for almost all of our revenues. The long-term contracts initiated in fiscal 1998 represent an important new aspect of Teekay's business. Through these agreements and expansion activities, we are levering off our strengths to broaden the Company's revenue base.

The Teekay Vision: Putting Our Strengths to Work

Teekay's success has always been guided by clear strategic objectives. Our latest planning initiative is dedicated to building our vision for the future – a vision that is grounded in our core purpose of making Teekay "the first choice" of our customers in the shipping industry.

The vision building process, which involved extensive consultation with our customers, provided valuable input on the Company's position in the market and confirmed our strengths, as

We are pursuing opportunities that are directly related to our unique industry position.

We are dedicated to making Teekay the first choice of our customers.

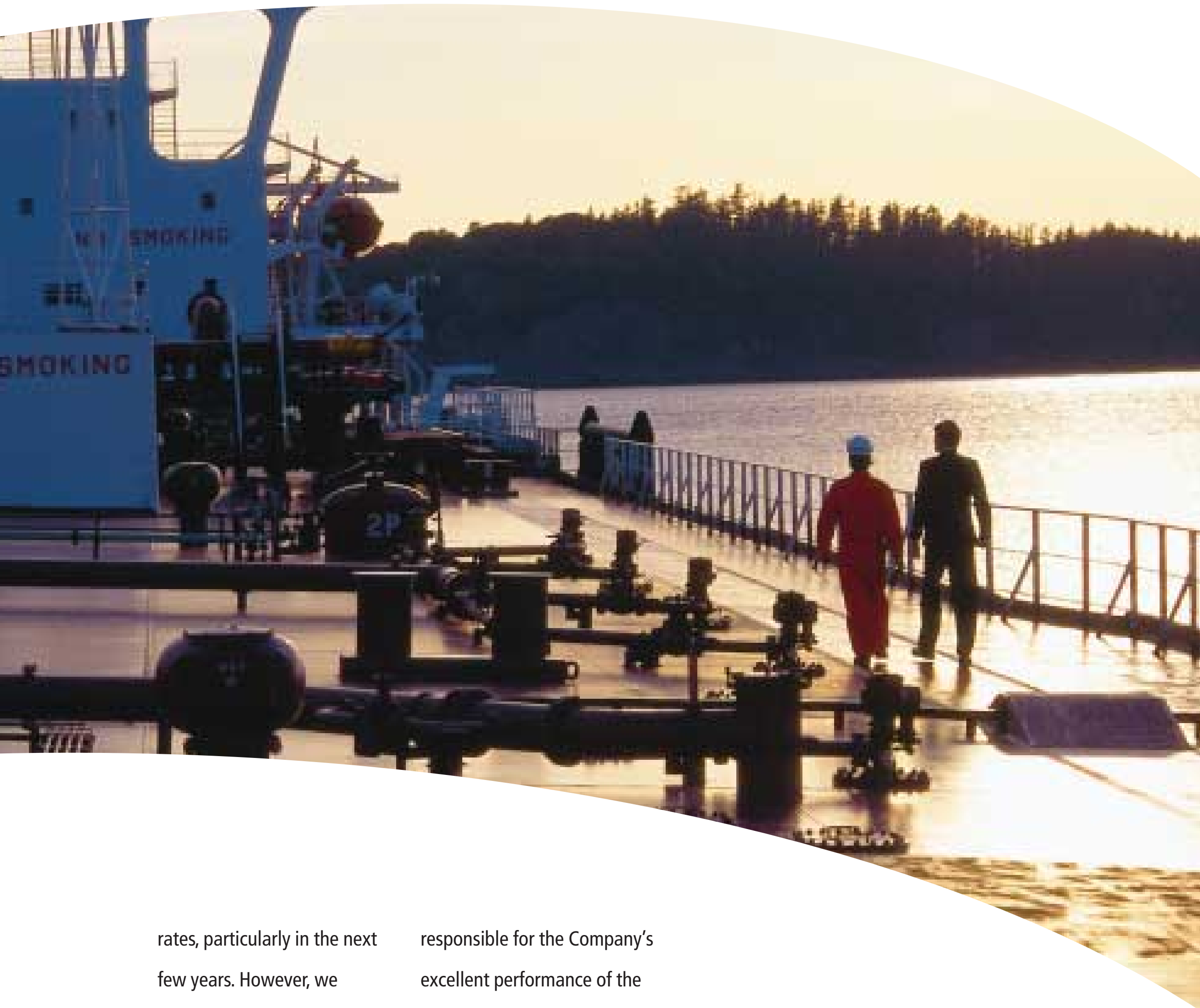
well as identifying areas for improvement. People throughout the Company are now involved in implementing our vision.

Teekay's future growth will be driven by a three-part strategy tailored to our competitive strengths. First, the Company's existing Aframax Indo-Pacific operations will remain an important part of our business. We will continue to optimize and grow this niche position by increasing our fleet and pursuing strategic cargo contracts. Second, we intend to develop further value-added solutions to opportunities that arise from our market position and our network of customer relationships. Third, many of the strengths that have made us successful can be brought to bear in other geographical markets and industry segments. Our customers regard us as among the best in the industry, in terms of professional staff, flexible, responsive service, and quality operations, and have frequently indicated a desire for Teekay to widen its service offering. On this basis, we intend to investigate potential new markets and industry segments, and will consider entering those that appear the most promising.

To assist in financing the implementation of Teekay's growth strategy, in early June 1998, the Company concluded the public sale of 2.8 million primary shares, raising approximately $69 million. This offering, along with the sale of shares by our major shareholder, has doubled the public float of Teekay stock, thus improving liquidity for our shareholders.

Moving Forward

The vision building process has energized us and has shown us that Teekay can be a larger, better and more profitable company than it is today. Teekay is a highly successful operator in markets that are subject to cyclical pressures. While overall supply and demand fundamentals point to a favourable industry outlook in the medium term, the timing of delivery of new tankers and scrapping may cause volatility in freight



rates, particularly in the next few years. However, we believe this will offer growth opportunities for stronger companies in our industry like Teekay. Our challenge will be to identify the right strategic mix in response.

On behalf of the Board, I would like to express our thanks to the management team and all Teekay employees. Your efforts are responsible for the Company's excellent performance of the past year and will continue our drive toward achieving the Teekay vision.

Bjorn Moller
President and
Chief Executive Officer
June 8, 1998

Finely balanced supply and demand

During 1997, an increase in Arabian Gulf OPEC production, combined with a stable world tanker fleet size, caused crude oil tanker freight rates to rise. This is evidenced by the average world Aframax TCE (Time Charter Equivalent) rates which rose to $21,258 per day in 1997 from $17,231 per day in 1996, an increase of 23.4 percent. As well, average VLCC (Very Large Crude Carrier) rates increased to $35,577 per day in 1997 from $27,093 per day in 1996, an increase of 31.3 percent.

Tanker Demand

Tanker demand is expressed in "ton-miles" and is measured as the product of the amount of oil transported in tankers, multiplied by the distance over which this oil is transported.

In recent years, two trends in the world oil market have had a strong impact on the tanker market: the overall growth in oil demand and an increase in average voyage length. According to the International Energy Agency (IEA), between 1993 and 1997, world oil consumption grew at a compounded annual rate of 2.2 percent. In 1997, the IEA reported a 2.9 percent increase in world oil consumption and forecasts growth of 2.0 percent for 1998.

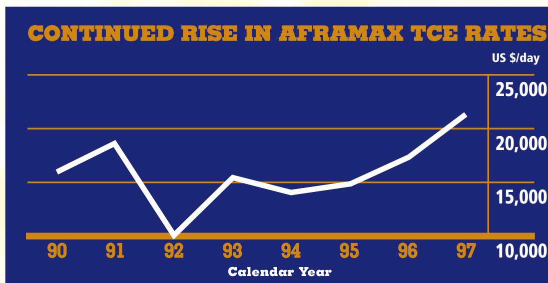
The location of oil supply relative to major discharge points affects average tanker voyage length. From 1993 through 1996, much of the world's increased oil supply came from the North Sea and Caribbean regions. In 1997, however, Arabian Gulf OPEC oil provided most of the 3.6 percent increase in world supply. Arabian Gulf OPEC supply grew by 6.6 percent in 1997, while there was virtually no change in North Sea supply.

Incremental supply from the Arabian Gulf creates a more significant increase in demand for tanker services than incremental supply from the North Sea and the Caribbean, because of the greater distance from the Arabian Gulf to discharge points and the associated longer average voyage length for oil tankers. For example, approximately 13 million dwt. of tanker tonnage is required to ship one million barrels per day from the Arabian Gulf to the United States, compared to approximately 5 million dwt. to ship the same volume from the North Sea to the United States.

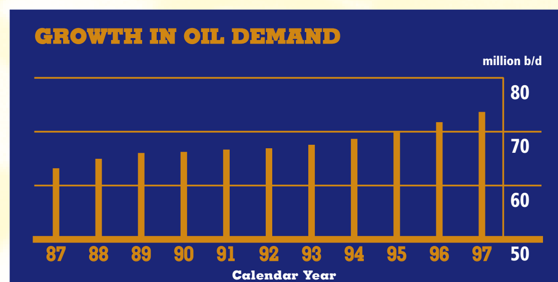
The recent trend toward an increased share of world oil supply originating from Arabian Gulf OPEC producers has had a positive effect on tanker demand.

Tanker Supply

The supply of tankers is conditioned by new vessel deliveries and the scrapping, conversion and loss of tonnage. Since 1993, the world tanker fleet has been relatively stable at approximately 300 million dwt.



Information based on industry data

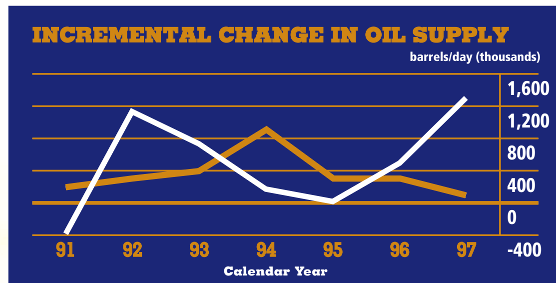


Source: IEA, PIRA Energy Group

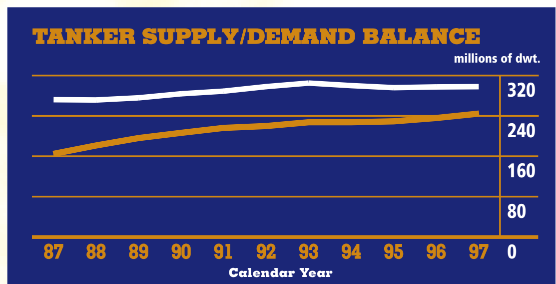
Scrapping generally involves older tankers; in 1997, the average age of Aframax tankers scrapped was approximately 23 years. Currently, approximately 39 percent of the vessels in the world's tanker fleet are 20 years of age or older.

A number of factors affect the decision to scrap. Aging vessels typically require substantial repairs and maintenance to conform to industry standards, including repairs often associated with Special Surveys. Vessels must be certified to be "in-class" in order to continue to trade. As the age of a vessel increases, the costs of maintaining it in-class rise considerably, so that it may become more economical to scrap an older vessel than to continue to operate it. The increased demand for safety and reliability associated with modern vessels, as well as the higher rates and operating cost efficiencies available to newer vessels also adversely affect the economics of operating older vessels. In addition, the International Maritime Organization (IMO) regulations impose certain restrictions on vessels trading beyond 25 years of age.

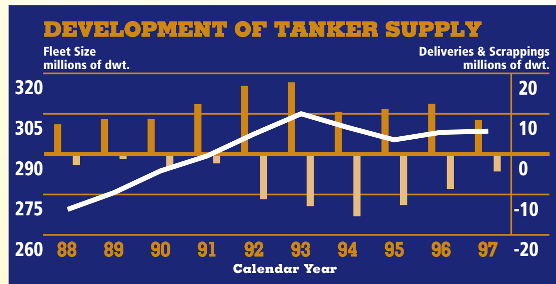
Recently, there has been an increase in newbuilding orders due to the favourable charter rate environment and in anticipation of increased scrapping. At March 31, 1997, the newbuilding orderbook held orders for 26.0 million dwt., equivalent to 8.7 percent of the then existing fleet. One year later, at March 31, 1998, the newbuilding orderbook held orders for 45.7 million dwt., equivalent to 15.3 percent of the existing fleet. Even with these new orders, the orderbook represents a significantly smaller percentage of the fleet than vessels 20 years and older, at 39 percent, which are likely to be scrapped within the next several years.



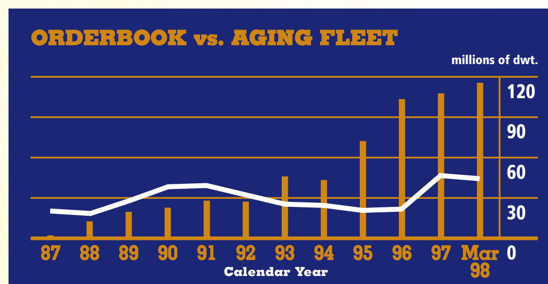
Arabian Gulf OPEC North Sea



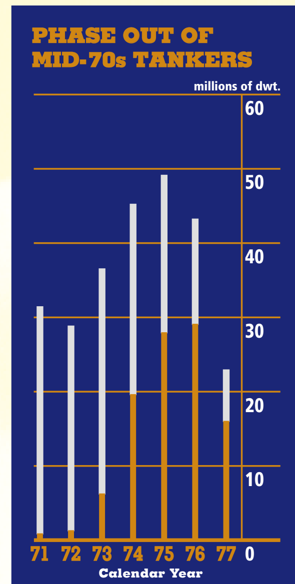
Supply Demand
Information based on industry data



Delivered Scrapped Fleet Size
Information based on industry data



Vessels 20 years and older Orderbook
Information based on industry data



Currently Trading Scrapped to Date
Information based on industry data

Onomichi Class – 15 Ships

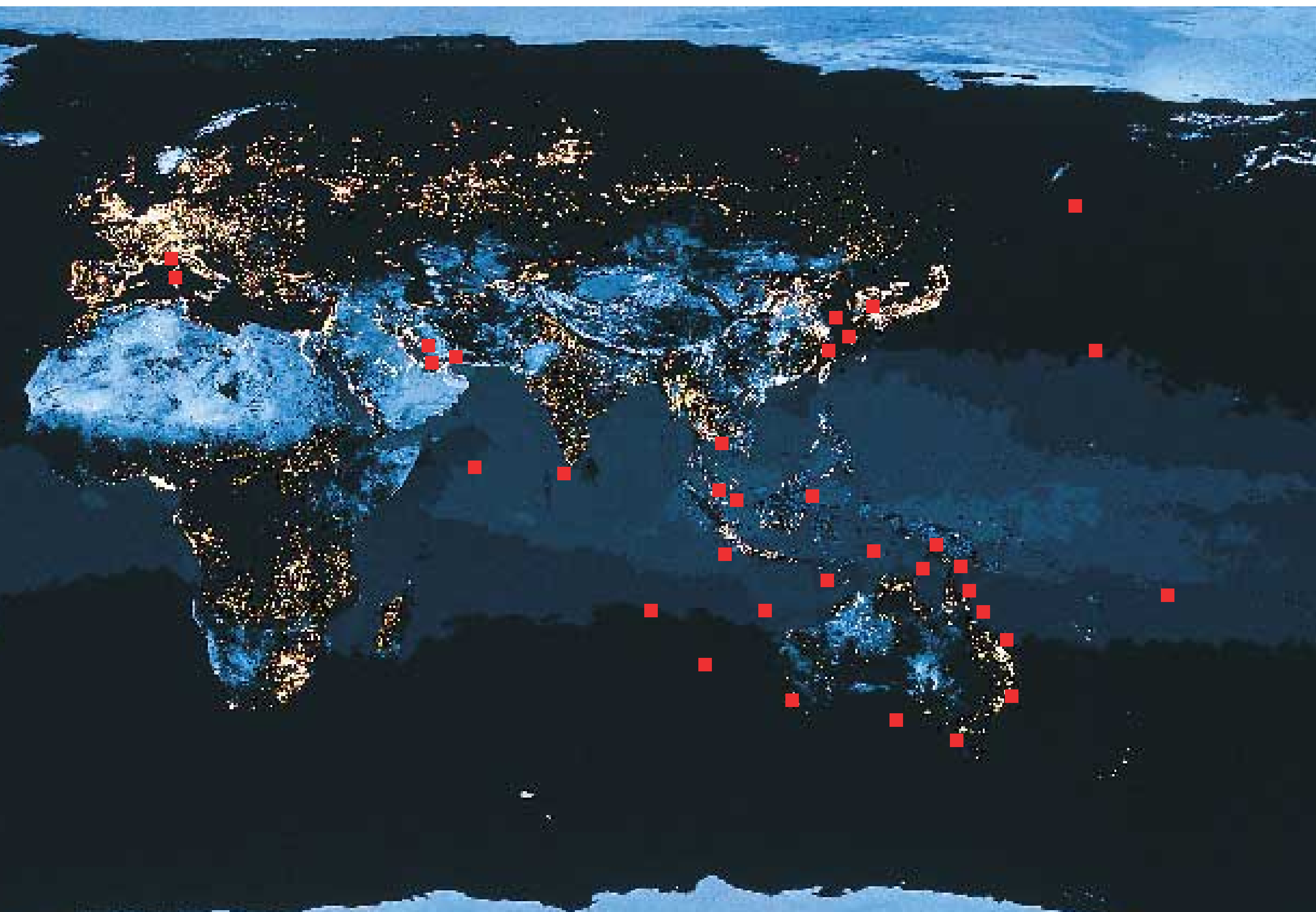
	dwt.	Year Built
Hamane Spirit DH*	105,300	1997
Poul Spirit DH	105,300	1995
Torben Spirit DH	98,600	1994
Leyte Spirit DH	98,600	1992
Luzon Spirit DH	98,600	1992
Mayon Spirit DH	98,600	1992
Samar Spirit DH	98,600	1992
Palmstar Lotus	100,200	1991
Palmstar Thistle	100,200	1991
Teekay Spirit	100,200	1991
Onozo Spirit	100,200	1990
Palmstar Cherry	100,200	1990
Palmstar Poppy	100,200	1990
Palmstar Rose	100,200	1990
Palmstar Orchid	100,200	1989

Imabari Class – 10 Ships

	dwt.	Year Built
Nassau Spirit DH	107,000	1998
Senang Spirit DH	95,700	1994
Sebarok Spirit DH	95,700	1993
Seraya Spirit DS**	97,300	1992
Sentosa Spirit DS	97,300	1989
Alliance Spirit DS	97,300	1989
Seletar Spirit DS	97,300	1988
Semakau Spirit DS	97,300	1988
Singapore Spirit DS	97,300	1987
Sudong Spirit DS	97,300	1987

Oil/Bulk/Ore (OBO) Carriers – 2 Ships

	dwt.	Year Built
Victoria Spirit DH	103,200	1993
Vancouver Spirit DH	103,200	1992



	dwt.	Year Built
Hyundai Class – 6 Ships		
Shilla Spirit	106,700	1990
Ulsan Spirit	106,700	1990
Dampier Spirit (FSO†)	106,700	1988
Namsan Spirit	106,700	1988
Pacific Spirit	106,700	1988
Pioneer Spirit	106,700	1988
Other Aframax – 9 Ships		
Seabridge (1)	105,200	1996
Kyushu Spirit DS	95,600	1991
Seamaster (1)	101,000	1990
Torres Spirit	96,000	1990
Koyagi Spirit	96,000	1989
Hakuyou Maru (1)	93,000	1987

	dwt.	Year Built
Magellan Spirit DS	95,000	1985
Palm Monarch	89,900	1981
Mendana Spirit	81,700	1980
Other Size Tankers – 4 Ships		
Musashi Spirit	280,700	1993
Palmerston DB***	36,700	1990
Barrington DH	33,300	1989
Scotland DS	40,800	1982
Total Tonnage:	4,576,200	
Newbuilding DH	113,000	1999
Newbuilding DH	113,000	1999

(1) Time-chartered-in
* DH – Double-hull tanker
** DS – Double-sided tanker
***DB – Double bottomed tanker
† Floating storage and off-take unit

Teekay Offices

Nassau:	Headquarters
	Administration
London:	Chartering
Glasgow:	Crewing
Singapore:	Chartering
	Operations
	Technical
	Quality Control
Manila:	Crewing
Tokyo:	Chartering
	Technical
	Purchasing
	Quality Control
Sydney:	Operations
	Crewing
	Quality Control
	Technical
Vancouver:	Chartering
	Operations
	Crewing
	Purchasing
	Risk Management
	Quality Control
	Financial
	Information Systems

■ Deployment of the Teekay fleet, March 26, 1998

Making Teekay the First Choice

Core Purpose

To be the first choice of our customers in the shipping industry; and to uphold the Teekay Standard as a respected symbol of quality. In fulfilling this purpose, we will create enduring value for our shareholders.

Core Values

- Professionalism, reliability and integrity
- Safety, quality and pollution prevention
- Responsiveness and creativity towards customers' needs
- Loyalty to employees
- Competitive and entrepreneurial spirit
- Continuous self-improvement

Over the past year, we devoted considerable effort to building our vision of Teekay's future. During the process, we revisited the Company's core purpose and core values and have integrated these key elements into our growth strategy.

Our strategy focuses on the core capabilities that make Teekay a preferred supplier for many of the world's largest oil companies and a respected symbol of quality throughout the industry. We plan to leverage off our strengths to pursue opportunities for growth.

As part of our vision building process, we have also renewed our commitment to continuous improvement. Throughout the Company, cross-functional task forces are evaluating the way we work. This will ensure that a culture of continuous improvement supports Teekay's future growth.

Strategic planning teams are moving the Company forward.

Strategic planning team meeting, Vancouver, May 22, 1998

The First Choice for responsive, flexible service

Innovative Solutions to Customer Needs

Timely, responsive and flexible service has long been a hallmark of Teekay. The Company operates chartering offices in London, Vancouver, Tokyo and Singapore so that customers are assured of a quick response, around the clock.

Teekay is committed to providing superior customer support. We take an innovative approach, guided by a "can do" spirit, to arrange each voyage to meet our customers' specific requirements. Our modern, homogenous fleet gives us the ability to substitute certain ships to increase scheduling flexibility. Our operational expertise enables us to optimize cargo stowage plans, to deliver the most efficient and cost-effective solutions for our customers.

Contracts of Affreightment

Teekay's proven performance and professionalism support long-term relationships with quality-conscious customers. A growing number of these customers entrust a significant volume of their transportation requirements to the Company on the basis of contracts of affreightment.

These contracts are tailored to suit the individual needs of the customer. For example, the freight rate can be fixed in advance for the duration of the agreement or, under some circumstances, it can be variable; the cargo volume can range from a full ship to a single tank; the load and discharge ports can specify individual berths or may cover a diverse geographical range. In some instances, depending on scheduling and the customer's needs, the same vessel may perform a series of consecutive voyages.

Teekay's stringent quality requirements and superior vessel specifications are key factors in establishing and maintaining on-going charter arrangements with the major oil companies and oil traders that represent our customer base. Long-term agreements provide customers with a secure supply of reliable transportation, and provide Teekay with a stable revenue base and increased utilization rates. The mutual benefits of such arrangements ensure that this is an area of the Company's business that is likely to continue to grow.

The First Choice for quality operations

The First Choice for

safety and reliability

The First Choice for

value-added solutions

As we pursue new growth opportunities, Teekay's industry expertise and reputation for safety and quality represent strong competitive advantages. In fiscal 1998, these advantages led to some important strategic developments.

Strong Ship Management

Teekay is well known throughout the industry for its efficient, cost-effective ship management and maintenance practices. Those strengths, combined with knowledge and experience gained in trading along the Australian coast were critical factors in reaching agreement with Caltex Australian Petroleum Pty. Ltd. (CAPPL, formerly APPL), to acquire and manage their marine operations.

The Company substantially increased its presence in Australia with this acquisition, which included two product tankers and a staff of 156 seagoing and shore employees. Teekay's Australian office will manage CAPPL's tanker operation and provide full in-house ship management of four vessels for up to 13 years.

Offshore Services

A number of Teekay's core strengths came into play in another oil company's decision to work with the Company to assist in the development of an Australian offshore oil field. Apache Energy chose Teekay to supply and convert an Aframax tanker for use as a floating storage and off-take (FSO) unit at the Stag Field location and to manage its operation on an on-going basis. The Company's ability to provide a cost-effective solution and comprehensive safety systems, combined with the expansion of Teekay's Australian operations, were key deciding factors for this project. Following a successful, on-time, on-budget conversion, the FSO Dampier Spirit is now on station, operating under the strict offshore safety regulations of the Government of Western Australia's Department of Minerals and Energy (DME).

Outstanding Safety Systems

Teekay has traditionally taken a proactive approach to safety that extends beyond regulatory compliance. The Company has developed a complete Safety Management System that integrates rigorous safety procedures and practices into every aspect of vessel operations.

In addition to maintaining the highest standards of safety in its vessel operations, Teekay regularly tackles industry issues such as oil spill response preparedness. The Company was the first independent tanker operator to conduct a simulated oil spill response drill in Australia. The exercise took place in March 1998, in Botany Bay, near Sydney Harbour.

The management of the Australian tankers and the FSO operation represent significant achievements for Teekay. These activities point to the Company's growing role as a partner to major oil companies in providing value-added shipping and offshore services.

The First Choice for

shareholder value

In fiscal 1998, Teekay continued to combine high vessel utilization with cost advantages to produce premium operating performance, with cash flow per ship per day at $12,664 and net income at $70.5 million, the highest since fiscal 1992.

Resources to Grow and Prosper

The Company has successfully built the resources to support further growth which is expected to increase shareholder value. Over the past six years, we have worked aggressively to restructure and strengthen our financial position. As a result, Teekay has the financial strength and flexibility required to take advantage of growth opportunities such as the acquisition and expansion activities of the past year.

Financial Strategy

From 1987 to 1993, Teekay substantially expanded and upgraded its fleet. Our investment in a modern, uniform fleet represents one of the Company's core strengths and has enabled us to take advantage of economies of scale and keep close control of ship operating and maintenance costs. Most importantly, this investment has allowed us to acquire new tonnage opportunistically, rather than being compelled to modernize an aging fleet.

For the past five years the Company's financial

strategy has been directed toward reducing the debt incurred from 1989 to 1993. At March 31, 1998, total debt minus cash stood at $610 million from a high of $933 million at January 1993, and the ratio of net debt to capitalization was 47 percent. In the future, Teekay's cashflow will be available to take advantage of growth opportunities. In addition, in early June 1998, the Company concluded the sale of 2.8 million primary shares, raising approximately $69 million, resulting in an even stronger equity base for financing the Company's future growth.

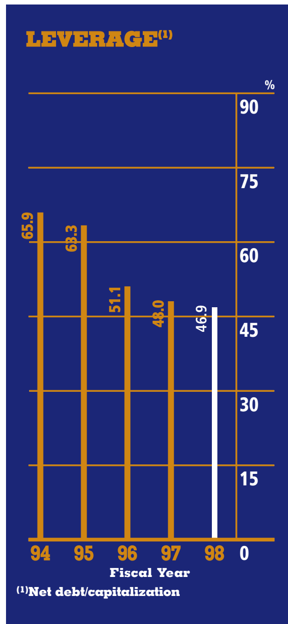
Capitalizing on A Unique Industry Position

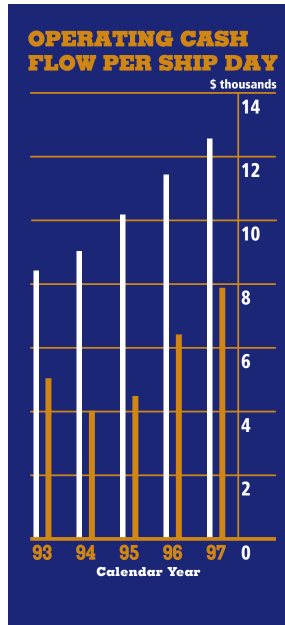
Teekay's dedication to quality, efficiency and safety is yielding positive returns. Projects initiated in fiscal 1998, such as the tanker fleet acquisition and floating storage facility in Australia, have resulted in a number of long-term contracts of up to 13 years at profitable rates, providing a stable revenue base.

For the future, we will continue to expand our business by pursuing the three strategies for growth that we identified through our vision building process: i.e., growing our niche position in the Indo-Pacific Basin, providing value-added service solutions to our customers, and applying our strengths in new geographical and industry segments.

The Company is in a strong financial position and we are striving to maintain our financial flexibility by ensuring access to equity capital markets and public debt markets. With this flexibility in combination with our strong core capabilities, Teekay is well prepared to grow and prosper.

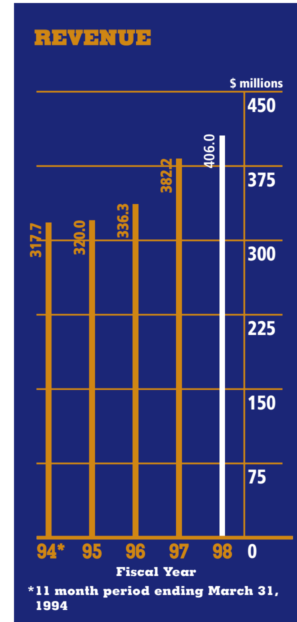
Teekay's dedication to quality, efficiency and safety is yielding positive returns.

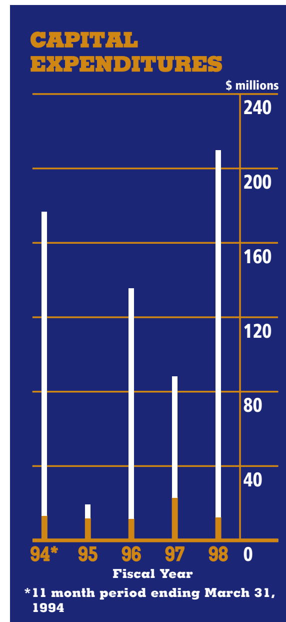




☐ Teekay Shipping ■ Other bulk shipping companies*

*Weighted average of BEA, BSH, LOFS, OMI, OSG





☐ Vessel and equipment, gross ■ Drydocking

General

The Company is a leading provider of international crude oil and petroleum product transportation services to major oil companies, major oil traders and government agencies, principally in the region from the Red Sea to the U.S. West Coast. The Company's current operating fleet consists of 46 vessels, including 42 Aframax oil tankers (including three vessels time-chartered-in) and Oil/Bulk/Ore ("O/B/O") carriers, three smaller oil tankers, and one Very Large Crude Carrier ("VLCC"), for a total cargo-carrying capacity of approximately 4.6 million tonnes.

During fiscal 1998, approximately 66% of the Company's net voyage revenue was derived from spot voyages. The balance of the Company's revenue is generated primarily by two other modes of employment: time charters, whereby vessels are chartered to customers for a fixed period; and contracts of affreightment ("COAs"), whereby the Company carries an agreed quantity of cargo for a customer over a specified trade route over a given period of time. In fiscal 1998, 18% of net voyage revenues was generated by time charters and COAs priced on a spot market basis. In the aggregate, approximately 84% of the Company's net voyage revenue during fiscal 1998 was derived from spot voyages or time charters and COAs priced on a spot market basis, with the remaining 16% being derived from fixed-rate time-charters and COAs. This dependence on the spot market, which is within industry norms, contributes to the volatility of the Company's revenues, cash flow from operations, and net income.

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

In December 1997, the Company acquired two vessels and related shore support services from an Australian affiliate of Caltex Petroleum. These two tankers, together with one of the Company's existing Aframax tankers, have been time chartered to the Caltex affiliate in connection with the Company's provision of Caltex's oil transportation requirements formerly provided by that affiliate. The Company has converted one of its existing vessels to a floating storage and off-take unit, which is sharing crews with the vessels employed in the Caltex arrangement (together with the other three vessels involved in this arrangement, the "Australian Vessels"). Vessel operating expenses for the Australian Vessels are substantially higher than those for the rest of the Company's fleet, primarily as a result of higher costs associated with employing an Australian crew. The time-charter rates for the Australian Vessels are correspondingly higher to compensate for these increased costs. During fiscal 1998, the Australian Vessels earned net voyage revenues and an average TCE rate (as defined below) of $8.4 million and $25,347, respectively, and incurred vessel operating expenses of $3.2 million, or $10,276 on a per ship per day basis. The results of the Australian Vessels are included in the Company's consolidated financial statements included herein.

Results of Operations

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

Fiscal 1998, Fiscal 1997, and Fiscal 1996

Operating results for the past three years reflect the improvement in average TCE rates experienced by the Company's fleet during this period, as well as the increase in the size of the Company fleet. The Company sold a total of seven of its older Aframax tankers during the three fiscal years ended March 31, 1998, and acquired a total of twelve newer Aframax tankers (including two time-chartered-in vessels) and two modern product tankers during the same period. The Company's average fleet size increased by two vessels, or 4.9%, in fiscal 1998 compared to fiscal 1997, following an earlier increase of two vessels, or 4.6%, in fiscal 1997 compared to fiscal 1996.

Net voyage revenues increased 8.9% to $305.3 million in fiscal 1998 from $280.2 million in fiscal 1997, and increased 14.0% in fiscal 1997 from $245.7 million in fiscal 1996, reflecting a combination of improvement in TCE rates and an increase in the Company's fleet size. The Company's average TCE rate in fiscal 1998, excluding the Australian Vessels, was up 5.0% to $21,373 from $20,356 in fiscal 1997, and up 10.4% in fiscal 1997 from $18,438 in fiscal 1996, in part due to lower bunker fuel prices.

In spite of the increase in fleet size, vessel operating expenses decreased 2.9% to $70.5 million in fiscal 1998 from $72.6 million in fiscal 1997, primarily as a result of a reduction in insurance premiums as well as more favorable foreign exchange rates between the U.S. Dollar and certain Asian currencies, particularly the Japanese Yen and the Korean Won, for spare parts and supplies purchased during the latter half of fiscal 1998. In fiscal 1997, vessel operating expenses increased 7.0%, from $67.8 million in fiscal 1996, primarily as a result of the increase in the size of the Company's owned fleet. As a result of a more competitive market for qualified sea-going personnel, adjustments were made to crew wage rates and salaries effective April 1, 1998, which will increase vessel operating expenses by approximately $300 per ship per day, or $4.3 million per year in aggregate, commencing in fiscal 1999.

Time-charter hire expense was $10.6 million in fiscal 1998, up from $3.5 million in fiscal 1997 and $2.5 million in fiscal 1996, as a result of two vessels time-chartered-in by the Company during fiscal 1998 as compared to only one vessel time-chartered-in during the latter part of fiscal 1996 and part of fiscal 1997.

Depreciation and amortization expense increased by 4.6% to $94.9 million in fiscal 1998 from $90.7 million in fiscal 1997, and increased by 10.1% in fiscal 1997 from $82.4 million in fiscal 1996, as a result of the increase in the average size of the Company's owned fleet, an increase in the average cost base of the fleet resulting from the replacement of some of the Company's older vessels with newer vessels, and a larger than usual number of scheduled drydockings during the past two fiscal years. Depreciation and amortization expense included amortization of drydocking costs of $11.7 million, $10.9 million, and $8.6 million in fiscal years 1998, 1997, and 1996, respectively.

General and administrative expenses rose 12.1% to $21.5 million in fiscal 1998 from $19.2 million in fiscal 1997, and increased 14.7% in fiscal 1997 from $16.8 million in fiscal 1996, primarily as a result of the cost of compliance with increasingly stringent tanker industry regulations, increases in senior management compensation, and the start-up cost and additional ongoing personnel and facility costs associated with expanding the Company's Australian office in December 1997. Management anticipates hiring additional senior management and staff personnel in connection with the further expansion of the Company's operations.

Income from vessel operations increased 14.2% to $107.6 million in fiscal 1998 from $94.3 million in fiscal 1997, and increased 23.6% in fiscal 1997 from $76.3 million in fiscal 1996, due to improved TCE rates and relatively stable costs.

Interest expense decreased by 7.4% to $56.3 million in fiscal 1998 from $60.8 million in fiscal 1997, following a 3.3% decrease in fiscal 1997 from $62.9 million in fiscal 1996, reflecting the reduction in the Company's average debt balance and a lower average interest rate on debt borrowings, in each case compared to the prior fiscal year. In June 1998, the Company concluded the public offering of 2.8 million shares of its Common Stock. The Company anticipates using the net proceeds of approximately $69 million from the offering, together with other funds, to redeem its 9⅝% First Preferred Ship Mortgage Notes due 2003. Interest income of $7.9 million in fiscal 1998, $6.4 million in fiscal 1997, and $6.5 million in fiscal 1996, largely reflected increasing cash

balances, offset in fiscal 1997 by lower interest rates.

Other income of $11.2 million in fiscal 1998 consisted primarily of $14.4 million in gains on the sale of three vessels, offset partially by $3.5 million in losses related to the prepayment of debt. Other income of $2.8 million in fiscal 1997 and $9.2 million in fiscal 1996 consisted primarily of gains on the sale of vessels.

As a result of the foregoing factors, the Company's net income was $70.5 million in fiscal 1998, which included $14.4 million in gains on asset sales. In comparison, the Company's net income was $42.6 million in fiscal 1997, which included $2.7 million in gains on assets sales, and $29.1 million in fiscal 1996, which included $8.8 million in gains on asset sales.

The following table illustrates the relationship between fleet size (measured in ship-days), TCE performance, and operating results per calendar ship-day. To facilitate comparison to the prior years' results, the figures in the table below exclude the results from the Company's Australian Vessels.

	Year Ended March 31, 1998	Year Ended March 31, 1997	Year Ended March 31, 1996
Average number of ships	42	41	39
Total calendar ship-days	15,341	14,937	14,310
Voyage days (A)	14,229	14,071	13,612
Net voyage revenue before commissions (B) (000s)	$ 304,115	$ 286,429	$ 250,981
TCE (B/A)	$ 21,373	$ 20,356	$ 18,438
Operating results per calendar ship-day:			
Net voyage revenue	$ 19,358	$ 18,760	$ 17,173
Vessel operating expense	4,554	4,922	4,787
General and administrative expense	1,375	1,286	1,171
Drydocking expense	765	733	602
Operating cash flow per calendar ship-day	$ 12,664	$ 11,819	$ 10,613

Liquidity and Capital Resources

The Company's total liquidity, including cash, marketable securities and undrawn long-term lines of credit, was $186.3 million as at March 31, 1998, down from $258.6 million as at March 31, 1997, and $197.3 million as at March 31, 1996. The Company's total liquidity had been increasing as a result of internally generated cash and debt refinancings, but declined during the fourth quarter of fiscal 1998 due to the purchase of two vessels which were paid for using existing cash balances and the Revolver (as defined below). Net cash flow from operating activities was $161.1 million in fiscal 1998, compared to $139.2 million and $98.4 million in fiscal years 1997 and 1996, respectively, reflecting an improvement in tanker charter market conditions accompanied by a relatively stable cost environment, the increase in the size of the Company's fleet, and a reduction in interest expense.

In January 1998, the Company replaced its existing revolving credit facility with a new revolving credit facility (the "Revolver") providing for borrowings of up to $200.0 million. The amount available under the Revolver reduces by $10.0 million semi-annually commencing in July 1999, with a final balloon reduction in January 2006. Interest payments are based on LIBOR plus a margin depending on the financial leverage of the Company; at March 31, 1998 the margin was +0.50%.

Scheduled debt repayments were $33.9 million during fiscal 1998, compared to $16.0 million in fiscal 1997 and $57.9 million in fiscal 1996. In addition to scheduled debt repayments, the Company prepaid long-term debt of $150.7 million in

fiscal 1998, primarily representing prepayments out of the proceeds of the Revolver and repurchases of $26.3 million of its 9⅝% First Preferred Ship Mortgage Notes due 2003.

Dividends declared during fiscal 1998 were $24.6 million, or $0.86 per share, of which $16.0 million was paid in cash and $8.6 million was paid in the form of shares of Common Stock issued under the Company's dividend reinvestment plan.

Three vessels were sold in fiscal 1998, resulting in net proceeds of $33.9 million. Subsequent to March 31, 1998, the Company sold an additional vessel for net proceeds of approximately $10.5 million. In fiscal 1997, the Company sold its interest in a 50%-owned vessel, resulting in net proceeds of $6.4 million which the Company received in the early part of fiscal 1998.

During fiscal 1998, the Company incurred capital expenditures for vessels and equipment of $197.2 million, primarily as a result of taking delivery of two newbuilding double-hull Aframax tankers, two modern second-hand Aframax tankers, and two modern second-hand product tankers. Capital expenditures for drydocking were $18.4 million in fiscal 1998, $16.6 million in fiscal 1997, and $7.4 million in fiscal 1996, reflecting a larger than usual number of scheduled drydockings during the last two fiscal years. Subsequent to March 31, 1998, the Company entered into an agreement for the construction of two newbuilding double-hull Aframax tankers, with deliveries scheduled for July and September 1999, with the option to purchase further newbuildings under similar terms. The agreement is subject to certain conditions that must be satisfied by the tankers' builder. The estimated delivered price for each vessel, including all related charges, is approximately $38.0 million. The Company intends to pay for these purchases by using existing cash balances, borrowings under the Revolver or other debt financing.

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

Year 2000 Compliance

The Company relies on computer systems and software to operate its business, including applications used in chartering, shipping, communications, finance and various administrative functions. To the extent that the Company's software applications contain source code that is unable to appropriately interpret the calendar year 2000 and subsequent years, some level of modification for replacement of such applications will be necessary. The Company is reviewing all of its systems in order to verify that they are "Year 2000 compliant" and believes, with limited exceptions, that they will require only minor modification. Accordingly, management does not expect Year 2000 compliance costs to have a material adverse effect on the Company. No assurance can be given, however, that all of the Company's systems will be Year 2000 compliant or that compliance costs or the impact of any failure by the Company to achieve full Year 2000 compliance will not have a material adverse effect on the Company. In addition, the Company could be adversely affected by the failure of one or more of its customers, lenders, suppliers or other organizations with which it conducts business to become fully Year 2000 compliant.

Forward-Looking Statements

The Company's Annual Report on Form 20-F for the fiscal year ended March 31, 1998 and this Annual Report to Shareholders for 1998 contain certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and the Company's operations,

performance and financial condition, including, in particular, statements regarding: tanker supply and demand; the Company's market share in the Indo-Pacific Basin; future capital expenditures, including expenditures for newbuilding vessels; the Company's growth strategy and measures to implement such strategy; the Company's competitive strengths; and future success of the Company. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Company. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to: the cyclical nature of the tanker industry and its dependence on oil markets; the supply of tankers available to meet the demand for transportation of petroleum products; scrapping dynamics and rates; the Company's dependence on spot oil voyages; competitive factors in the markets in which the Company operates; environmental and other regulation; the Company's potential inability to achieve and manage growth; risks associated with operations outside the United States; and other factors detailed from time to time in the Company's periodic reports filed with the U.S. Securities and Exchange Commission. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

To the Shareholders of Teekay Shipping Corporation

We have audited the accompanying consolidated balance sheets of Teekay Shipping Corporation and subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended March 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teekay Shipping Corporation and subsidiaries as at March 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in the United States.

Ernst & Young
Chartered Accountants

Nassau, Bahamas
May 15, 1998

	Year Ended March 31, 1998	Year Ended March 31, 1997	Year Ended March 31, 1996
Net Voyage Revenues			
Voyage revenues	$ 406,036	$ 382,249	$ 336,320
Voyage expenses	100,776	102,037	90,575
Net voyage revenues	$ 305,260	$ 280,212	$ 245,745
Operating Expenses			
Vessel operating expenses	$ 70,510	$ 72,586	$ 67,841
Time charter hire expense	10,627	3,461	2,503
Depreciation and amortization	94,941	90,698	82,372
General and administrative	21,542	19,209	16,750
	$ 197,620	$ 185,954	$ 169,466
Income from vessel operations	$ 107,640	$ 94,258	$ 76,279
Other Items			
Interest expense	$ (56,269)	$ (60,810)	$ (62,910)
Interest income	7,897	6,358	6,471
Other income (note 10)	11,236	2,824	9,230
	$ (37,136)	$ (51,628)	$ (47,209)
Net Income	$ 70,504	$ 42,630	$ 29,070
Retained earnings, beginning of the year	382,178	363,690	406,547
	$ 452,682	$ 406,320	$ 435,617
Exchange of redeemable preferred stock (note 8)			(60,000)
Dividends declared and paid	(24,580)	(24,142)	(11,927)
Retained earnings, end of the year	$ 428,102	$ 382,178	$ 363,690
Earnings per common share (notes 1 and 8)			
– basic	$ 2.46	$ 1.52	$ 1.17
– diluted	$ 2.44	$ 1.50	$ 1.17

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

	As at March 31, 1998	As at March 31, 1997
Assets		
Current		
Cash and cash equivalents	$ 87,953	$ 117,523
Marketable securities (note 3)	13,448	
Accounts receivable		
– trade	23,092	25,745
– other	1,235	1,066
Prepaid expenses and other assets	13,786	14,666
Total current assets	$ 139,514	$ 159,000
Marketable securities (note 3)	13,853	
Vessels and equipment (notes 1, 5 and 9)		
At cost, less accumulated depreciation of $500,779		
(1997 – $457,779)	$ 1,297,883	$ 1,187,399
Advances on vessels		8,938
Total vessels and equipment	$ 1,297,883	$ 1,196,337
Investment		6,335
Other assets	8,933	11,166
	$ 1,460,183	$ 1,372,838
Liabilities and Stockholders' Equity		
Current		
Accounts payable	$ 16,164	$ 16,315
Accrued liabilities (note 4)	29,195	26,982
Current portion of long-term debt (note 5)	52,932	36,283
Total current liabilities	$ 98,291	$ 79,580
Long-term debt (note 5)	$ 672,437	$ 663,443
Total liabilities	$ 770,728	$ 743,023
Stockholders' equity		
Capital stock (note 8)	$ 261,353	$ 247,637
Retained earnings	428,102	382,178
Total stockholders' equity	$ 689,455	$ 629,815
	$ 1,460,183	$ 1,372,838

Commitments and contingencies (notes 5, 6 and 9)

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

Consolidated Statements of Cash Flows
(in thousands of U.S. dollars)

	Year Ended March 31, 1998	Year Ended March 31, 1997	Year Ended March 31, 1996
Cash and cash equivalents provided by (used for)			
Operating Activities			
Net income	$ 70,504	$ 42,630	$ 29,070
Add (deduct) charges to operations not requiring			
a payment of cash and cash equivalents:			
Depreciation and amortization	94,941	90,698	82,372
Gain on disposition of assets	(14,392)		(8,784)
Loss on repurchase of 9⅝% Notes	2,175		
Equity income (net of dividend received:			
March 31, 1997 – $282)	(45)	(2,414)	(1,139)
Other – net	2,735	2,785	2,452
Change in non-cash working capital items related to			
operating activities (note 11)	5,201	5,459	(5,556)
Net cash flow from operating activities	$ 161,119	$ 139,158	$ 98,415
Financing Activities			
Proceeds from long-term debt	$ 208,600	$ 240,000	$ 448,000
Scheduled repayments of long-term debt	(33,876)	(16,038)	(57,850)
Prepayments of long-term debt	(150,655)	(250,078)	(505,962)
Scheduled payments on capital lease obligations			(1,527)
Prepayments of capital lease obligations			(43,023)
Net proceeds from issuance of Common Stock	5,126	1,283	137,872
Cash dividends paid	(15,990)	(13,493)	(7,094)
Capitalized loan costs	(994)	(1,130)	(5,965)
Net cash flow from financing activities	$ 12,211	$ (39,456)	$ (35,549)
Investing Activities			
Expenditures for vessels and equipment (net of capital lease			
financing of: 1998 – $NIL; 1997 – $NIL; 1996 – $44,550)	$ (197,199)	$ (65,104)	$ (79,293)
Expenditures for drydocking	(18,376)	(16,559)	(7,405)
Proceeds from disposition of assets	33,863		28,428
Net cash flow from investment	6,380	(2,296)	3,273
Proceeds on sale of available-for-sale securities	14,854		111,770
Purchases of available-for-sale securities	(42,154)		(41,993)
Other	(268)		
Net cash flow from investing activities	$ (202,900)	$ (83,959)	$ 14,780
(Decrease) increase in cash and cash equivalents	$ (29,570)	$ 15,743	$ 77,646
Cash and cash equivalents, beginning of the year	117,523	101,780	24,134
Cash and cash equivalents, end of the year	$ 87,953	$ 117,523	$ 101,780

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

1. Summary of Significant Accounting Policies

Basis of presentation

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Reporting currency

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

Investment

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

Operating revenues and expenses

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

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

Marketable securities

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

Vessels and equipment

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

Interest costs capitalized to vessels and equipment for the years ended March 31, 1998, 1997 and 1996 aggregated $283,000, $232,000, and $106,000, respectively.

Expenditures incurred during drydocking are capitalized and amortized on a straight-line basis over the period until the next anticipated drydocking. When significant drydocking expenditures recur prior to the expiry of this period, the remaining balance of the original drydocking is expensed in the month of the subsequent drydocking. Drydocking expenses amortized for the years

ended March 31, 1998, 1997 and 1996 aggregated $11,737,000, $10,941,000, and $8,617,000 respectively.

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

Other assets

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

Interest rate swap agreements

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

Forward contracts

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

Cash flows

Cash interest paid during the years ended March 31, 1998, 1997 and 1996 totaled $55,141,000, $57,400,000, and $59,021,000, respectively.

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

Income taxes

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

Earnings per share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per share". SFAS 128 requires dual presentation of basic earnings per share ("EPS") and diluted EPS on the face of all statements of earnings ending after December 15, 1997 for all entities with complex capital structures. The Company's EPS for all periods presented herein are in conformity with SFAS 128 (see Note 8 – Capital Stock).

Accounting for Stock-Based Compensation

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

2. Business Operations

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

A single customer, an international oil company, accounted for approximately 14% ($56,537,000) of the Company's consolidated voyage revenues for fiscal 1998. Another customer, also an international oil company, accounted for approximately 13% ($48,696,000), of consolidated voyage revenues for fiscal 1997. No more than one customer accounted for over 10% of the Company's consolidated voyage revenues in each of the last three fiscal years.

3. Investments in Marketable Securities

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Market and Carrying Value
March 31, 1998				
Available-for-sale securities	$ 27,304	$ 13	$ (16)	$ 27,301

The cost and approximate market value of available-for-sale securities by contractual maturity, as at March 31, 1998, are shown as follows:

	Cost	Approximate Market and Carrying Value
Less than one year	$ 13,456	$ 13,448
Due after one year through five years	13,848	13,853
	$ 27,304	$ 27,301

4. Accrued Liabilities

	March 31, 1998	March 31, 1997
Voyage and vessel	$ 15,845	$ 15,458
Interest	9,272	9,294
Payroll and benefits	4,078	2,230
	$ 29,195	$ 26,982

5. Long-Term Debt

	March 31, 1998	March 31, 1997
Revolving Credit Facility	$ 129,000	$
First Preferred Ship Mortgage Notes (8.32%)		
U.S. dollar debt due through 2008	225,000	225,000
First Preferred Ship Mortgage Notes (9 5/8%)		
U.S. dollar debt due through 2003	123,718	151,200
Floating rate (1998: LIBOR + 0.55% to 1%; 1997: LIBOR + 0.65% to 1 1/2%)		
U.S. dollar debt due through 2009	247,651	323,526
	$ 725,369	$ 699,726
Less current portion	52,932	36,283
	$ 672,437	$ 663,443

In January 1998, the Company refinanced approximately $105.0 million of its floating rate debt and replaced the previous corporate revolving credit facility with a new $200 million corporate revolving credit facility (the "Revolver") at improved rates and credit terms. The amount available under the Revolver reduces by $10.0 million semi-annually commencing in July 1999, with a final balloon reduction in January 2006. Interest payments are based on LIBOR plus a margin depending on the financial leverage of the Company; at March 31, 1998 the margin was + 0.50%. As at March 31, 1998, the undrawn amount available under the Revolver was $71.0 million. The Revolver is collateralized by first priority mortgages granted on eight of the Company's Aframax tankers, together with certain other related collateral, and a guarantee from the Company for all amounts outstanding under the Revolver.

The 8.32% First Preferred Ship Mortgage Notes due February 1, 2008 (the "8.32% Notes") are collateralized by first preferred mortgages on seven of the Company's Aframax tankers, together with certain other related collateral, and are guaranteed by seven subsidiaries of Teekay that own the mortgaged vessels (the "8.32% Notes Guarantor Subsidiaries") to a maximum of 95% of the fair value of their net assets. As at March 31, 1998, the fair value of these net assets approximated $252.0 million. The 8.32% Notes are also subject to a sinking fund, which will retire $45.0 million principal amount of the 8.32% Notes on each February 1, commencing 2004.

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

The 9 5/8% First Preferred Ship Mortgage Notes due July 15, 2003 (the "9 5/8% Notes") are collateralized by first preferred mortgages on six of the Company's Aframax tankers, together with certain other related collateral, and are guaranteed by six subsidiaries of Teekay that own the mortgaged vessels (the "9 5/8% Notes Guarantor Subsidiaries") to a maximum of 95% of the fair value of their net assets. As at March 31, 1998, the fair value of these net assets approximated $186.0 million. The 9 5/8% Notes are also subject to a sinking fund, which will retire $25.0 million principal amount of the 9 5/8% Notes, on each July 15, which commenced on July 15, 1997. During fiscal 1998, the Company repurchased a principal amount of $26.3 million of the 9 5/8% Notes. During fiscal 1996, the Company repurchased $23.8 million of these notes, which was applied to reduce the July 15, 1997 sinking fund requirement. The 9 5/8% Notes are redeemable at the option of the Company, in whole or in part, on or after July 15, 1998 at the following redemption prices expressed as a percentage of principal:

5. Long-Term Debt continued

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

Upon a Change of Control each 9 5/8% Note holder and 8.32% Note holder has the right, unless the Company elects to redeem these Notes, to require the Company to purchase these Notes at 101% of their principal amount plus accrued interest.

All floating rate loans are collateralized by first preferred mortgages on the vessels to which the loans relate, together with certain other collateral, and guarantees from Teekay.

Among other matters, the long-term debt agreements generally provide for such items as maintenance of certain vessel market value to loan ratios and minimum consolidated financial covenants, prepayment privileges (in some cases with penalties), and restrictions against the incurrence of additional debt and new investments by the individual subsidiaries without prior lender consent. The amount of Restricted Payments, as defined, that the Company can make, including dividends and purchases of its own capital stock, is limited as of March 31, 1998, to $74.0 million.

As at March 31, 1998, the Company was committed to a series of interest rate swap agreements whereby $150 million of the Company's floating rate debt was swapped with fixed rate obligations having an average remaining term of 7.5 months. The swap agreements expire between October 1998 and December 1998. These arrangements effectively change the Company's interest rate exposure on $150 million of debt from a floating LIBOR rate to an average fixed rate of 5.86%. The Company is exposed to credit loss in the event of non-performance by the counter parties to the interest rate swap agreements; however, the Company does not anticipate non-performance by any of the counter parties.

The aggregate annual long-term debt principal repayments required to be made for the five fiscal years subsequent to March 31, 1998 are $52,932,000 (fiscal 1999), $53,058,000 (fiscal 2000), $53,191,000 (fiscal 2001), $62,332,000 (fiscal 2002), and $72,199,000 (fiscal 2003).

6. Leases

Charters-out

Time charters to third parties of the Company's vessels are accounted for as operating leases. The minimum future revenues to be received on time charters currently in place are $46,222,000 (fiscal 1999) and $39,631,000 (fiscal 2000), $39,602,000 (fiscal 2001), $39,562,000 (fiscal 2002), $39,562,000, (fiscal 2003), and $215,533,000 thereafter.

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

Charters-in

Minimum commitments under vessel operating leases are $19,681,000 (fiscal 1999), $9,445,000 (fiscal 2000), $6,844,000 (fiscal 2001), and $412,000 (fiscal 2002).

7. Fair Value of Financial Instruments

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

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

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

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

	March 31, 1998		March 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash, cash equivalents and marketable securities	$ 115,254	$ 115,254	$ 117,523	$ 117,523
Long-term debt	725,369	737,785	699,726	695,265
Interest rate swap agreements – net receivable (payable) position		(176)		1,154
Foreign currency contracts		339		(181)

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

8. Capital Stock

Authorized

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

125,000,000 Common Stock with no par value

	Common Stock	Thousands of Shares	Preferred Stock	Thousands of Shares
Issued and outstanding				
Balance March 31, 1995	$ 33,000	36,000	$ 1	600
May 15, 1995 1-for-2 Reverse Common Stock Split		(18,000)		
July 19, 1995 Initial Public Offering 6,900,000 shares at $21.50 per share of Common Stock (net of share issue costs)	137,613	6,900		
July 19, 1995 Exchange of Redeemable Preferred Stock for 2,790,698 shares of Common Stock	60,000	2,791	(1)	(600)
Reinvested Dividends	4,833	201		
Exercise of Stock Options	259	12		
Balance March 31, 1996	$ 235,705	27,904	$ 0	0
Reinvested Dividends	10,649	364		
Exercise of Stock Options	1,283	60		
Balance March 31, 1997	$ 247,637	28,328	$ 0	0
Reinvested Dividends	8,590	273		
Exercise of Stock Options	5,126	232		
Balance March 31, 1998	$ 261,353	28,833	$ 0	0

The Company has reserved 1,844,135 shares of Common Stock for issuance upon exercise of options granted pursuant to the Company's 1995 Stock Option Plan (the "Plan").

During fiscal 1998, 1997 and 1996, the Company granted options under the Plan to acquire up to 359,750, 343,250 and 796,750 shares of Common Stock (the "Grants"), respectively, to certain eligible officers, key employees (including senior sea staff), and directors of the Company. The options have a 10-year term and follow a graded-vesting schedule. The options granted during fiscal 1998 and 1997 vest equally over four years from the date of grant. At March 31, 1998, all options granted during fiscal 1996 have vested.

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

	Fiscal 1998		Fiscal 1997		Fiscal 1996	
	Options ('000s)	Weighted-Average Exercise Price	Options ('000s)	Weighted-Average Exercise Price	Options ('000s)	Weighted-Average Exercise Price
Outstanding-beginning of year	1,056	$23.40	779	$21.50	0	$21.50
Granted	360	33.50	343	27.38	797	21.50
Exercised	(232)	22.02	(60)	21.50	(12)	21.50
Forfeited	(23)	30.39	(6)	24.00	(6)	21.50
Outstanding-end of year	1,161	$26.66	1,056	$23.40	779	$21.50
Exercisable at end of year	565	$22.14	519	$21.50	383	$21.50
Weighted-average fair value of options granted during the year (per option)	$8.13		$6.72		$5.16	

Exercise prices for the options outstanding as of March 31, 1998 ranged from $21.50 to $33.50 and have a weighted-average remaining contractual life of 8.10 years.

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

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

	Year Ended March 31, 1998	Year Ended March 31, 1997	Year Ended March 31, 1996
Net income:			
As reported	$ 70,504	$ 42,630	$ 29,070
Pro forma	69,090	40,679	26,842
Basic earnings per common share:			
As reported	$ 2.46	$ 1.52	$ 1.17
Pro forma	2.41	1.45	1.08
Diluted earnings per common share:			
As reported	$ 2.44	$ 1.50	$ 1.17
Pro forma	2.39	1.44	1.08

Basic earnings per share is based upon the following weighted average number of common shares outstanding: 28,655,000 shares at March 31, 1998; 28,138,000 shares at March 31, 1997; and 24,837,000 shares at March 31, 1996. Diluted earnings per share, which gives effect to the aforementioned stock options, is based upon the following weighted average number of common shares

outstanding: 28,870,000 shares at March 31, 1998; 28,339,000 shares at March 31, 1997; and 24,902,000 shares at March 31, 1996.

The fair values of the Grants were estimated on the dates of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free average interest rates of 6.29%, 6.44%, and 6.14% for fiscal 1998, fiscal 1997 and fiscal 1996, respectively, dividend yield of 3.0%; expected volatility of 25%; and expected lives of 5 years.

9. Commitments and Contingencies

As at March 31, 1998, the Company was committed to foreign exchange contracts for the forward purchase of approximately Japanese Yen 100 million and Singapore dollars 15.9 million for U.S. dollars, at an average rate of Japanese Yen 128.3 per U.S. dollar and Singapore dollar 1.68 per U.S. dollar, respectively, for the purpose of hedging accounts payable and accrued liabilities.

10. Other Income

	Year Ended March 31, 1998	Year Ended March 31, 1997	Year Ended March 31, 1996
Gain on disposition of assets	$ 14,392	$	$ 8,784
Equity in results of 50% owned company	45	2,696	1,139
Write off of loan costs due to refinancing	(1,308)		
Loss on extinguishment of debt	(2,175)		
Miscellaneous – net	282	128	(693)
	$ 11,236	$ 2,824	$ 9,230

For the year ended March 31, 1997, Equity in results of the 50% owned company included a $2,732,000 gain on a vessel sale. Gross realized gains and (losses) on sales of available-for-sale securities for the year ended March 31, 1996 aggregated $1,787,000 and ($1,732,000), respectively.

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

	Year Ended March 31, 1998	Year Ended March 31, 1997	Year Ended March 31, 1996
Accounts receivable	$ 2,484	$ (1,873)	$ (4,792)
Prepaid expenses and other assets	880	665	(2,058)
Accounts payable	5,814	4,554	281
Accrued liabilities	(3,977)	2,113	1,013
	$ 5,201	$ 5,459	$ (5,556)

12. Subsequent Events

In May 1998, the Company commenced an offering of up to 8,050,000 shares of Common Stock, of which 2,800,000 shares are being offered by the Company and up to 5,250,000 shares are being offered by a selling shareholder. The net proceeds to the Company of the offering will be used to redeem a portion of the 9⅝% Notes.

Subsequent to March 31, 1998 the Company entered into an agreement (subject to certain conditions) for the construction of two Aframax vessels for a cost of $76.0 million, scheduled for delivery in July and September of 1999.

Five Year Summary of Financial Information

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

	Fiscal Year ended March 31, 1998	Fiscal year ended March 31, 1997	Fiscal year ended March 31, 1996	Fiscal year ended March 31, 1995	11 month period ended March 31, 1994
Income Statement Data:					
Net voyage revenues	$ 305,260	$ 280,212	$ 245,745	$ 235,009	$ 236,690
Income from vessel operations	107,640	94,258	76,279	52,816	60,777
Net income	70,504	42,630	29,070	6,368	30,158
Per Share Data:					
Earnings per share	$ 2.46	$ 1.52	$ 1.17	$ 0.35	$ 1.68
Weighted average shares outstanding (thousands)	28,655	28,138	24,837	18,000	18,000
Balance Sheet Data (at end of period):					
Total assets	$1,460,183	$1,372,838	$1,355,301	$1,306,474	$1,405,147
Total stockholders' equity	689,455	629,815	599,395	439,066	433,180
Other Financial Data:					
EBITDA	$ 209,582	$ 191,632	$ 166,233	$ 146,756	$ 151,364
Net debt to capitalization (%)	46.9	48.0	51.0	63.3	65.9
Capital expenditures:					
Vessel purchases, gross	$ 197,199	$ 65,104	$ 123,843	$ 7,465	$ 163,509
Drydocking	12,409	23,124	11,641	11,917	13,296
Fleet Data:					
Average number of ships	43	41	39	42	45
Time-charter equivalent (TCE)	$ 21,373	$ 20,356	$ 18,438	$ 16,552	$ 17,431
Operating cash flow per ship per day	12,664	11,819	10,613	8,944	9,133

Michael D. Dingman

Director

Chairman and

Chief Executive Officer of

The Shipston Group Limited

Axel Karlshoej

Director and

Chairman of the Board

President of Nordic Industries

Morris L. Feder

Director

President of Worldwide

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Bjorn Moller

Director, President and

Chief Executive Officer

Steve G.K. Hsu

Director

Chairman of Oak Maritime

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Stock Exchange Listing

New York Stock Exchange
Symbol: TK
There were 28.8 million shares outstanding at March 31, 1998.

Share Price Information

The following table sets forth the New York Stock Exchange high and low prices of the Company's stock for each quarter during fiscal 1998:

Quarter ended	High	Low	Dividends Declared (per share)
June 30, 1997	$34⅝	$28	$0.215
September 30, 1997	$36	$30 15/16	$0.215
December 31, 1997	$37⅞	$30⅜	$0.215
March 31, 1998	$33 9/16	$27⅞	$0.215

Investor Relations

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