Leading from strength

Teekay Shipping Corporation / **2002 Annual Report**

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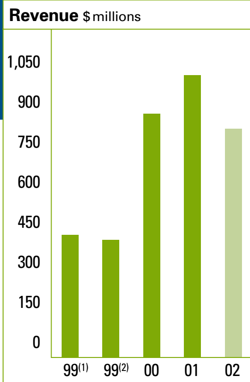
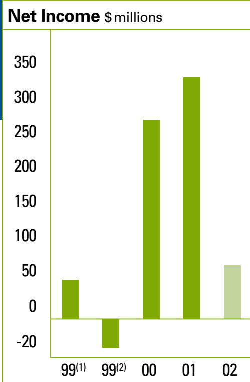
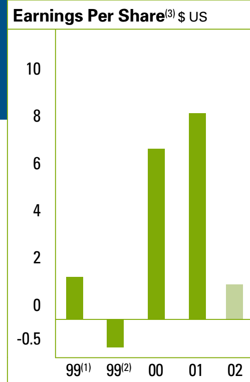
Financial Highlights



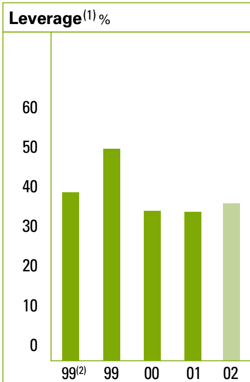
Fiscal Year Ended December 31
(1) Fiscal year ended March 31
(2) Nine months ended December 31, 1999



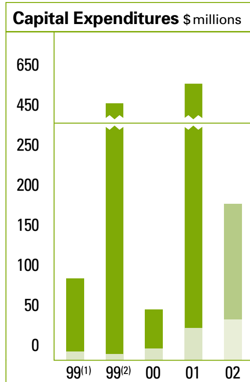
Fiscal Year Ended December 31
(1) Fiscal year ended March 31
(2) Nine months ended December 31, 1999



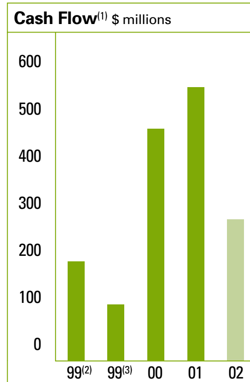
Fiscal Year Ended December 31
(1) Fiscal year ended March 31
(2) Nine months ended December 31, 1999
(3) Fully Diluted



As at December 31
(1) Net debt/capitalization
(2) As at March 31



Fiscal Year Ended December 31
Vessels and equipment, gross
Drydocking
(1) Fiscal year ended March 31
(2) Nine months ended December 31, 1999



Fiscal Year Ended December 31
(1) Earnings before interest, taxes, depreciation and amortization (EBITDA)
(2) Fiscal year ended March 31
(3) Nine months ended December 31, 1999

Financial Highlights

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

	Year Ended December 31, 2002	Year Ended December 31, 2001
Income Statement Data		
Net voyage revenues	**$ 543,872**	$ 789,494
Net income	**53,391**	336,518
Balance Sheet Data		
Total assets	**$ 2,723,506**	$ 2,467,781
Total stockholders' equity	**1,421,898**	1,398,200
Per Share Data		
Fully diluted earnings per share	**$ 1.33**	$ 8.31
Weighted average shares outstanding – diluted (thousands)	**40,252**	40,488
Other Financial Data		
EBITDA	**$ 278,061**	$ 539,324
Net debt to capitalization (%)	**36.4**	34.3
Capital expenditures:		
Vessel purchases, gross*	**135,650**	544,737
Drydocking	**34,913**	20,064
Total fleet operating cash flow per ship per day	**8,168**	17,682

**Includes vessels from acquisitions.*

Teekay Shipping is recognized as a world leader

in the safe and efficient transportation of crude oil and petroleum products.

We lead from the strength of:

- **our fleet and operations,** which are guided by the most rigorous and exacting standards in the industry;
- **our relationships with customers,** who continue to trust and rely on us as a valued business partner;
- **our global network of people,** both on ships and on shore; and
- **our financial strategy,** which allows us to create enduring shareholder value through sound, strategic investments.

Teekay Shipping. **Leading from strength.**

We lead from the **strength** of our

operations

"I have spent the better part of 21 years on ships. While life on board doesn't offer the comforts of home, what keeps you going is your professionalism, your commitment to the career you have chosen and the pride you take in a job well done. At Teekay, that commitment and sense of duty stretches beyond our vessels to every aspect of our operations. The same rigor, discipline and procedures required to safely shepherd a tanker loaded with 100,000 tonnes of highly sensitive cargo are brought to bear on the administrative and corporate resources required on shore to support a fleet of more than 100 ships operating around the globe. Nothing is left to chance. We are constantly monitoring and tracking performance to make sure we are meeting and exceeding our customers' expectations. They have entrusted us with their business – and the network of people and systems we have in place at Teekay means we are always in a position to reward that trust."

Duncan Elsdon
Chief Officer

"For two-and-a-half years I had the perfect perspective on Teekay's approach to building relationships with customers. I used to compete head-to-head with Teekay when I worked in chartering with a small shipping company in Germany. Competing with Teekay was frustrating. I was dealing with a four-vessel fleet, which meant I had to win business on rates. But on every deal, Teekay was always there with an incredibly powerful value proposition. Their offering included superior customer service, seemingly endless vessel availability, incredible flexibility, and competitive pricing – it was pretty hard to compete with that. Needless to say, when Teekay approached me to be part of its global chartering team, I was thrilled! There is a real focus at Teekay to build a brand that is always our customers' first choice. As our customers continue to expand their view of their business, so do we. Our fleet is growing and our ships are among the highest quality in the industry. We have the expertise to handle cargo in the most sensitive waters, and we have the capacity to deliver on our commitments. It's a great formula."

Maša Mirković
Chartering Specialist

We lead from the **strength** of our

customer

service

We lead from the **strength** of our

people

"As a boy growing up in Calcutta, seafaring was always part of my life. My father used to take me out of school to join him on voyages. I was the envy of all my schoolmates when I told them of the places I had been and the sights I had seen. My career began as a 17-year-old cadet with the Shipping Corporation of India and I have been going to sea ever since. While captaining various vessels around the world, I heard rumours that Teekay was a different kind of shipping company – one where you could settle down, build a career, challenge yourself to grow and learn. So, when I moved to Canada, Teekay was first on my list of prospective employers. It was clear from the beginning that the rumours were true. A commitment to people is central to our vision for success. Every day I am impressed by the commitment and dedication displayed by my colleagues. We invest heavily in training to ensure that standards throughout the organization – whether it be on our vessels or on shore – are at their highest. And we clearly understand that the right people armed with the right tools, and a sense of pride in serving our customers, will continue to separate Teekay from the rest of the pack."

Bikramjit Kanjilal
Marine Superintendent

"During the late 90's, after taking Teekay public, we were trying to do two things: raise capital to grow the company, and communicate to the investor community that a tanker company could deliver shareholder value over the long term. Thanks to the operating performance of our team, we have delivered on our commitment to create shareholder value and the tanker industry has gained a greater awareness among investors. The cyclical nature of our business requires financial strength and stability. We continue to focus on improving our balance sheet so that we can take advantage of all tanker market conditions and invest wisely. For example, our recent acquisition of Navion has significantly increased our portfolio of long-term contracts and provides a platform for further growth in this area. Not only because it adds stability but because it is profitable. It's a great position to be in."

Peter Antturi
Chief Financial Officer

We lead from the **strength** of our
financial
strategy

C. SEAN DAY Chairman of the Board of Directors

"Statoil's decision to sell its marine transportation business to Teekay was made after rigorous scrutiny of the quality of our personnel, our operations and our balance sheet."

Chairman's Message to Shareholders

Teekay's results in 2002 reflect the much weaker tanker market that prevailed for most of the year. The drop in our earnings from the previous two years demonstrates the earnings volatility inherent in our deeply cyclical industry. However, we continue to work hard to bring greater stability and visibility to our future earnings. The acquisition outlined below will move us much closer to this goal.

In December we entered into an agreement to acquire Navion from Statoil, the Norwegian oil company. Navion's fleet of specialized shuttle vessels is committed to long-term contracts servicing major oil companies. We will also have the right of first refusal on all of Statoil's conventional oil shipments worldwide for the next five years, and will achieve global economies of scale by integrating Navion's large conventional fleet with Teekay's worldwide operations. This acquisition is the next step in our strategy to balance our spot market exposure with long-term contract cover.

The acquisition of Navion vividly illustrates the theme of our report this year – Leading from Strength. Navion's specialized vessels operate year-round in the hostile and environmentally sensitive waters of the North Sea. Statoil's decision to sell its marine transportation business to Teekay was made after rigorous scrutiny of the quality of our personnel, our operations and our balance sheet. We are proud that we were selected for this landmark transaction in our industry.

As industry leaders, we continue to invest in training and systems, and are committed to maintaining the highest operating standards in our industry. We believe this is an excellent investment of our shareholders' funds. The *Prestige* oil spill off the coast of Spain at the end of last year and its catastrophic consequences once again demonstrate why safety and protection of the environment are core values that we will not compromise.

As we begin a new year, we are benefiting from tanker rates that have spiked sharply upwards, propelled by a very cold winter in the Northern hemisphere, unrest in Venezuela and hostilities in the Middle East. Once this stimulus subsides, tanker demand will depend on the vigour of the global economy. Although a large number of new tankers are scheduled to be delivered this year, fleet growth is likely to be tempered by stepped-up regulatory pressure to recycle older vessels following the *Prestige* oil spill.

We rely on the professionalism and dedication of our seafarers every day. All of them work long hours in a challenging environment. I am grateful to them all, as well as our shore staff, our loyal customers and our shareholders.

C. Sean Day

C. Sean Day
Chairman of the Board of Directors

BJORN MOLLER President and CEO

"Our ability to commit to a cash transaction the size of Navion at the end of a year of weak tanker rates demonstrates the competitive advantage provided by our strong balance sheet."

CEO's Report to Shareholders

In 2002 the tanker industry experienced a decline in demand driven by a weak global economy and oil production cuts by OPEC. The low freight rates that resulted for much of the year caused Teekay's earnings in 2002 to decline to $53.4 million or $1.33 per share, compared with $336.5 million or $8.31 per share in 2001.

Given Teekay's significant operating leverage, cyclical swings in tanker rates have a big impact on our financial results. While we cannot influence the timing and the magnitude of the shipping cycles, we can focus on growing Teekay's earning power through the cycles. We do this by consistently pursuing two complementary strategies: using a strong balance sheet and a disciplined approach to the timing of new investments in our large spot-trading tanker fleet that is exposed to the market cycles; and growing a portfolio of long-term, profitable contract business that provides stable cash flow throughout the cycles.

In 2002 we delivered on both of these strategies. Having concentrated on building our financial flexibility in previous years, we brought the strength of our balance sheet to bear, entering into more than $1 billion of profitable new investments.

We announced a program to build a series of high-specification Aframax tankers at prices about 20 per cent below those seen just one year earlier. We hold a number of attractively priced options to extend this program at a time when shipbuilding prices have returned to an upward trend due to renewed demand for new tonnage across a broad range of shipping sectors.

During the year, UNS, our Norwegian shuttle tanker subsidiary, used its strong brand and technical know-how to secure a major new shuttle tanker contract in Brazil. The two modern Suezmax tankers we acquired for this project are in the process of being converted for shuttle service. This contract is expected to produce stable EBITDA of $11 million annually over the next 15 years.

The highlight in 2002 for Teekay was the announcement of an agreement to acquire Navion, the shipping subsidiary of Statoil of Norway, for $800 million cash. The transaction is expected to close in the second quarter of 2003. The largest transaction of its kind, Navion represents a substantial breakthrough for Teekay. It places us in an important, long-term role in the logistics chain of Statoil and a number of other major oil companies. The transaction represents a natural extension of Teekay's core businesses. Navion's large portfolio of complex logistics contracts to load oil from offshore production platforms represents a vertical integration from UNS, which operates in a distinctly different part of the market. Navion's fixed-rate contracts are expected to generate over $100 million annually in EBITDA. In addition, Navion holds a long-term right-of-first-refusal contract on all of Statoil's conventional tanker requirements in the crude oil and petroleum products markets. In support of this relationship, Navion operates a large modern fleet of in-chartered tankers ranging from smaller product tankers to very large crude carriers. This fleet will further increase Teekay's operating leverage and will complement our spot-trading tanker franchise, providing us with a platform in several new customer service segments.

Our ability to commit to a cash transaction the size of Navion at the end of a year of weak tanker rates demonstrates the competitive advantage provided by our strong balance sheet.

Teekay's consistently well-timed investments have had a positive effect on our earning power over the past five years. We expect our annual earnings per share in a typical mid-cycle tanker market to increase from $1.50 in 1999 to $4.60 by 2004 when our newbuildings will have delivered, and peak earnings per share to increase from $6.00 to $11.00. Mid-cycle annualized cash flow (EBITDA) is expected to increase from $190 million to approximately $500 million, $260 million of which will come from long-term, fixed-rate contracts, compared to only $23 million in 1999.

2002 was also a year in which we focused on strengthening our customer service franchise. We refined our service offering through further investments in people and systems. We believe that we outperform the average tanker operator in every area: in our responsive, flexible service provided through scale and global presence; in our reputation for operational excellence through our modern, high quality, well-managed fleet; in our safe operations through industry-leading health, safety and environment programs; and in the well-trained and experienced crews that operate our ships. The *Prestige* accident, described on page 16 of this report, has highlighted what our oil company customers are looking for during this time of increased regulatory and public scrutiny: they want to deal with large, transparent, well-capitalized tanker companies that are professionally run and can be trusted with the safe transportation of their oil. Teekay is such a company.

Looking ahead to the rest of 2003 we see an unusually broad range of factors that could affect the tanker market this year. A relatively large delivery of new tanker capacity is likely to increase physical supply. Yet, given the large number of old tankers in the world fleet that are likely to be marginalized in the post-*Prestige* era – through customer discrimination, new regulations, or both – the net supply growth picture appears more balanced. Tanker demand looks set to grow in 2003 due to growth in global oil demand, coupled with geopolitical factors, such as reduced production in Venezuela, increased production by Middle-East OPEC countries and potential disruption in Iraq. During the first few months of 2003 the combination of these supply and demand factors has resulted in very strong tanker rates. While these rate levels may not be sustainable throughout the year, the tanker market is certainly off to an excellent start in 2003. Beyond 2003, anticipated strict new regulations could set the stage for a potentially tight balance in the tanker market in the coming years, particularly if demand growth returns to historic levels. The beneficiaries of such a market environment will be tanker companies like Teekay that have made large investments in modern tanker fleets.

In 2003, Teekay is celebrating its 30th anniversary. From the outset, our late founder, Torben Karlshoej, had an unalterable vision of Teekay becoming a world leader. 2002 was yet another year during which we built on Torben's vision. In 2003, after the closing of the Navion transaction, Teekay will be responsible for carrying more than 10 per cent of the world's sea-borne oil on board our 150 owned and in-chartered tankers.

Entering 2003, we believe that we lead our industry from a position of strength in a number of strategically important areas: the flexibility of our balance sheet; the safety and efficiency of our operations; the experience of our global team; and our ability to deliver the benefits of these attributes to our customers day in and day out. We will continue to create shareholder value by building on this leadership position.

I would like to thank our more than 4,100 dedicated employees, from ship to shore, for continuing to build Teekay's position during this past year. I thank our customers for trusting us with their business. And, I thank our loyal shareholders for their continued support of Teekay.

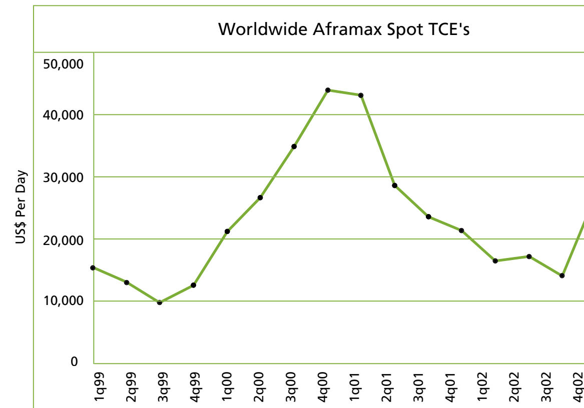
Bjorn Moller
President and CEO

Market Review

Overview

The tanker freight market weakened during 2002 compared to the previous year mainly due to a decline in tanker demand during the first nine months. The aftermath of the global economic recession in 2001, lingering effects of September 11, warmer than normal winter weather in the first quarter and OPEC production cutbacks all contributed to weak tanker demand. Worldwide TCE rates for Aframax tankers averaged $19,400 per day in 2002, compared to $30,400 per day the previous year.

The tanker market fared considerably better in 2002 than in 1999, which was the last year of weak tanker demand; TCE rates in that year averaged $13,300 per day. This improvement in TCE rates reflects the fact that the tanker fleet has remained relatively stable in the last two years, and that increased customer discrimination following incidents such as the sinking of the *Prestige* has helped to further tighten the supply-demand balance.



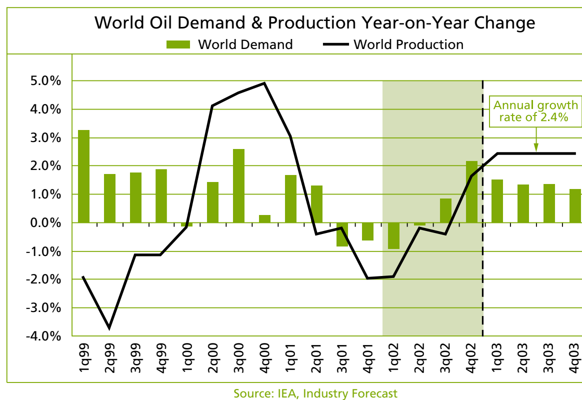
Weak tanker demand caused a decline in tanker rates during 2002. A strong turnaround was seen in the fourth quarter.

During the fourth quarter of 2002, a seasonal increase in oil consumption and several short-term operational and geopolitical factors led to a significant increase in tanker demand while tanker supply was effectively reduced by heightened customer discrimination against older vessels. This tightening in the supply-demand equation during the fourth quarter caused TCE rates to recover to the high levels of 2000 and 2001.

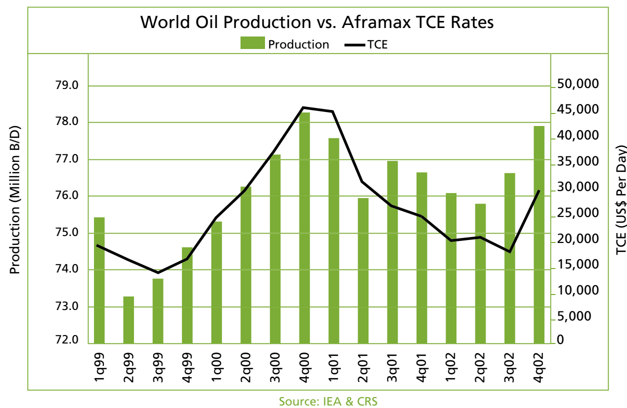
Tanker Demand

Tanker demand in the first half of 2002 was influenced by the effect of the global economic recession that began in 2001, the lingering effects of September 11 on the airline industry and a warmer than normal winter in the first quarter. Global oil consumption declined by 0.5 per cent during this period compared to the first half of 2001. However, a significant turnaround occurred in the second half, particularly in the fourth quarter, as a gradual global economic recovery, colder than normal winter in the Northern hemisphere, the shutdown of nuclear power plants in Japan and high natural gas prices caused oil demand to grow by 1.5 per cent from the previous year. Overall for 2002, global oil demand grew by 0.5 per cent compared to 2001.

Global oil production, a more immediate driver of tanker demand, decreased to 76.6 million barrels per day (mb/d) in 2002, down by 0.2 mb/d from 2001 levels. A 1.4 mb/d increase in non-OPEC production, mainly from the Former Soviet Union and West Africa, was more than



A gradual recovery in the global economy saw global oil consumption rise by 0.5 per cent in 2002. Underlying this data was a 0.5 per cent decline in the first half and a strong recovery to 1.5 per cent year-on-year growth in the second half.



Global oil production declined in 2002, as OPEC production cutbacks more than offset the increase from non-OPEC producers.

offset by a decline of 1.6 mb/d from OPEC, three-quarters of which occurred in the Middle East. This shift from long-haul OPEC to short-haul non-OPEC production led to lower tanker demand. This was most visible in the first half of the year, as OPEC restrained production to support crude oil prices. However, increased oil consumption in the second half of the year, coupled with a decline in OECD oil inventories, led to rising crude oil prices and paved the way for increases in OPEC production and, in turn, rising tanker demand.

According to IEA's forecast, world oil demand is expected to rise by 1.5 per cent in 2003 based on a recovery in the global economy, a colder than normal winter in the first quarter, strong demand growth in Asia, and the continued closure of Japanese nuclear power plants until mid-year.

There are several additional short-term factors augmenting tanker demand in 2003. The replacement of reduced short-haul Venezuelan oil exports with long-haul Middle East oil, which has already led to a significant increase in tanker tonne-mile demand, is expected to last for some time. While Venezuelan production is slowly recovering, industry experts expect it may take months to restore production towards historical levels and that as much as 0.5 mb/d may be permanently lost. In addition, a war in Iraq could lead to a disruption in crude exports from that country. If such a disruption were confined to Iraq and if Iraqi crude oil exports are replaced by other Middle East oil this would increase tanker demand, as tankers would transport oil directly from the Middle East to replace oil currently carried by pipeline from Iraq into the Mediterranean.

Tanker Supply

The world tanker fleet increased in 2002 to 307.5 million deadweight (mdwt), up by 0.9 per cent from December 2001. Despite this recent growth, the tanker fleet size remains smaller than it was two years ago. New tanker deliveries increased from 14.3 mdwt in 2001 to 23.4 mdwt in 2002. Demolition of old tankers rose to 18.3 mdwt compared to 16.5 mdwt in 2001, while miscellaneous removals, losses and conversions accounted for another 3.1 mdwt compared to 3.3 mdwt in 2001.

In the Aframax sector, 36 tankers were delivered in 2002 while 22 vessels were scrapped and one vessel (the *Prestige*) was lost at sea. As a result, the fleet increased by 2.5 per cent to total 642 vessels, which is just one ship more than at the end of 1999.

Tanker ordering declined in 2002 as owners took a more cautious approach towards placing new orders due to the weaker freight markets during the first nine months. A total of 20.8 mdwt was contracted during the year, down 23 per cent from the preceding year. The order book declined to 60.5 mdwt at the end of 2002, compared to 63.1 mdwt at the end of 2001. The pace of Aframax ordering also slowed in 2002, with 46 new contracts placed compared to 70 in 2001. The Aframax order book rose to 131 from 121 ships.

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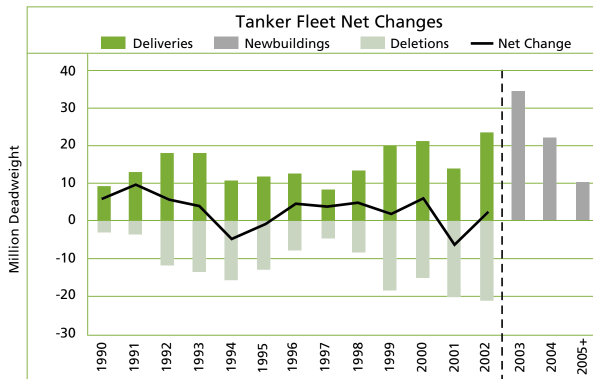


The world tanker fleet increased by 0.9 per cent in 2002. However, the size of the fleet remains smaller than two years ago.

The market outlook for 2003 hinges on several key factors. On the supply side, whilst forecast deliveries for 2003 (34.2 mdwt or 11 per cent of the existing fleet) appear large, they could be offset by two factors: typical slippage of around 15 per cent from published schedules that could reduce deliveries in 2003 from 11 per cent to nine per cent of the fleet; and heightened charterer discrimination against older vessels and proposed European regulations that could lead to a high rate of scrapping. On the demand side, the increase in tanker demand from a fundamental increase in oil consumption and several short-term factors, have the potential to largely match fleet growth. The strength in the tanker market during early 2003 indicates that some of the factors mentioned above are playing out and supply-demand fundamentals remain finely balanced.

The Sinking of the *Prestige*

On November 19, 2002, the *Prestige*, a 26-year-old oil tanker owned by a small privately-held shipping company, was carrying 77,000 tonnes of heavy fuel oil when it broke in two in bad weather and sank off the Northwest coast of Spain. The oil from the spillage contaminated beaches on the Spanish Galician coast and also caused pollution in France and Portugal. The adverse impact on the region's fisheries-based economy has become a major political issue in Spain.

In response to the *Prestige* incident, authorities in the European Union (EU) have undertaken close scrutiny of the use of older tankers for the carriage of oil, particularly persistent oil. Proposals have already been issued following this incident to accelerate the phase-out of single-hull oil tankers. Other countries, including the United States, Japan and Australia, are also considering revisions to their existing pollution regulations applicable to tankers. The EU may also propose a global adoption of these rules via the International Maritime Organization.

If the proposals are adopted in their current form, there could be a tightening in the world tanker supply and a reallocation of tonnage. This could result in firm market conditions and increased tanker freight rates for modern vessels.

The Offshore Loading Business

Characteristics of the offshore loading business:

- no spot market
- no speculative newbuilding ordering
- operational expertise is essential
- sophisticated technology required due to the harsh environment
- economies of scale are needed to support customer requirements
- pipelines are costly and less viable for deepwater production

Over the past two years, Teekay has made major investments in the offshore loading business.

Shuttle tankers are technically-enhanced vessels used to transport oil from offshore production installations to on-shore storage and refinery facilities. They are an integral part of this logistics chain, essentially serving as floating pipelines to the offshore sector, and are the most cost-effective solution for transporting oil from deepwater fields and smaller marginal wells.

Uninterrupted operations are critical to offshore oil production installations, as a disruption in production can result in significant financial consequences for the field operator. Shuttle tankers are equipped with specialized equipment and built-in redundancy that enables them to operate in high seas and harsh weather. Operational expertise is essential for safe and reliable operation of these vessels.

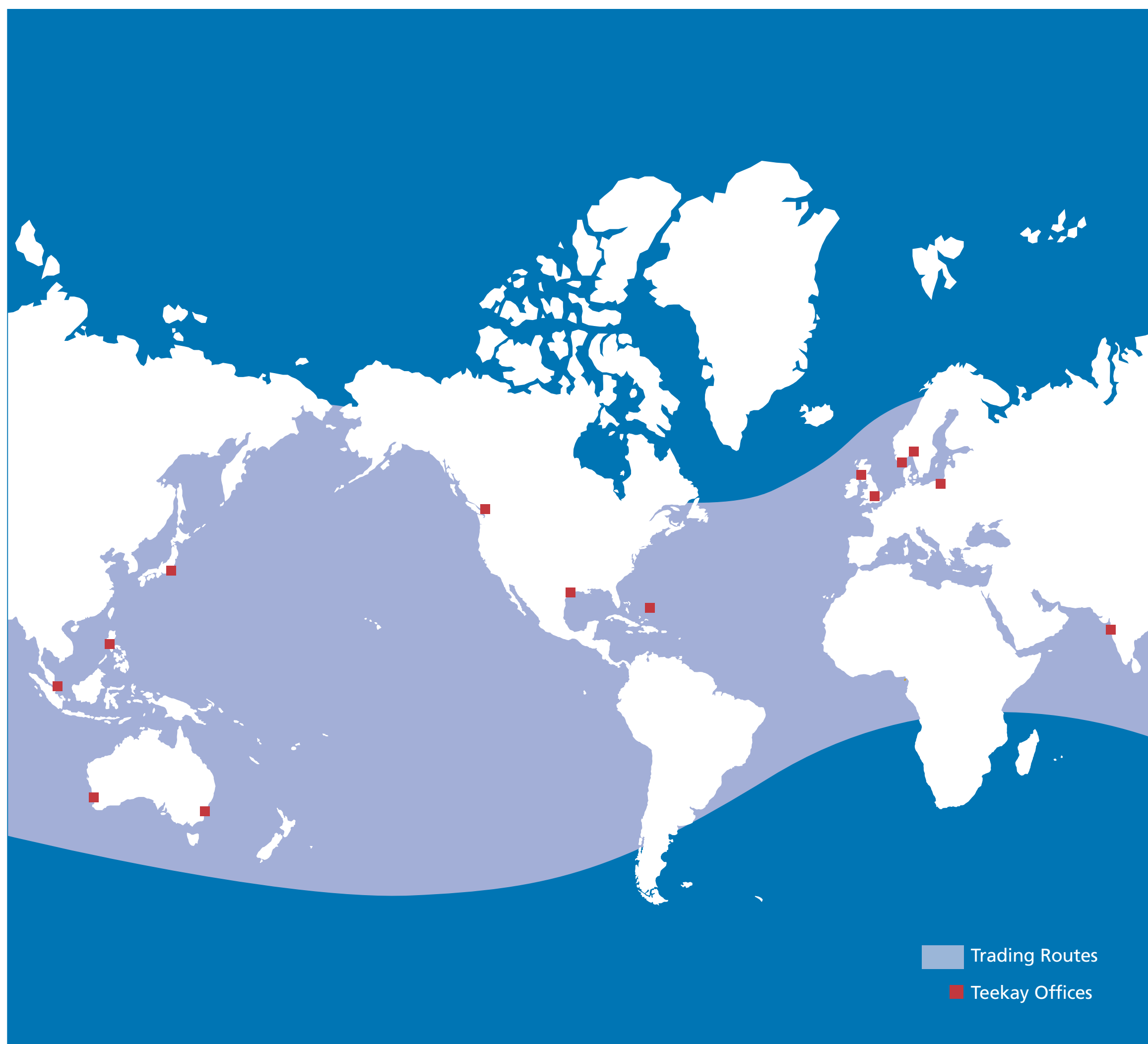
Operators provide service either through long-term contracts of affreightment that provide a high degree of flexibility to the field operator, or through time-charter contracts where ships are dedicated to serving particular customers.

Teekay first entered the offshore loading business in 2001 with the acquisition of Ugland Nordic Shipping (UNS), the world's largest owner of shuttle tankers serving the time-charter market. With our pending acquisition of Navion, Teekay will become the leader in the logistically-complex contract of affreightment sector of the offshore loading business. UNS and Navion are in distinctly different, complementary areas of the shuttle market. Teekay's combined investment in these profitable niche businesses will grow to more than $1.5 billion.

The world shuttle tanker fleet comprises 63 vessels, with only five vessels on order – all of which are fixed on long-term contracts. There is no speculative newbuilding ordering in this sector.

Currently the offshore loading business is concentrated in the North Sea. However, there are growing markets for shuttle tankers in many areas of active offshore oil exploration, such as the Gulf of Mexico, the East Coast of Canada and Brazil.

SHIPPING ROUTES AND OFFICES



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

SUMMARY OF TEEKAY FLEET

As of March 1, 2003

	Number of Vessels	Total DWT
Aframax Tankers		
Onomichi Class	15	1,497,900
Hyundai Class	11	1,108,900
Imabari Class	10	987,600
Samsung Class	5	566,100
Mitsubishi Class	5	446,000
Other Aframax	7	693,700
In-Chartered Aframaxes	5	515,800
Shuttle Tankers	15	1,460,400
Oil/Bulk/Ore (OBO) Vessels	8	625,900
Other Size Tankers		
VLCC	1	280,700
Suezmax	2	302,000
Product Carriers	2	69,900
Floating Storage and Off-take (FSO) Vessels	3	340,400
Newbuildings To Be Delivered		
Shuttle Tankers	2	239,500
Suezmax	3	456,000
Aframax	7	789,000
Total	101	10,379,800

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

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this report. Except for historical information, the following discussion contains forward-looking statements that involve risks and uncertainties, such as the Company's objectives, expectations and intentions. When used in this report, the words "expects," "intends," "plans," "believes," "anticipates," "estimates" and variations of such words and similar expressions are intended to identify forward-looking statements. Actual results could differ materially from results that may be anticipated by such forward-looking statements included in this report. The Company undertakes no obligation to revise any forward-looking statements to reflect events or circumstances that may subsequently arise. Readers should carefully review and consider the various disclosures made in this report including those made in the "Risk Factors" section of the Company's annual report on Form 20-F for the year ended December 31, 2002 and in other Company SEC filings that discuss risks and factors that may affect our business, prospects, financial condition and results of operations.

General

Teekay is a leading provider of international crude oil and petroleum product transportation services to major oil companies, major oil traders and government agencies worldwide. At March 1, 2003, the Company's fleet consisted of 101 vessels (including 12 newbuildings on order, five vessels time-chartered-in and four vessels owned by joint ventures), for a total cargo-carrying capacity of approximately 10.4 million tonnes.

During the year ended December 31, 2002, approximately 45% (2001 – 57%; 2000 – 68%) of the Company's net voyage revenues were derived from spot voyages. The balance of the Company's revenues were generated by two other modes of employment: time-charters, whereby vessels were chartered to customers for a fixed period, and contracts of affreightment ("COAs"), whereby the Company carried an agreed quantity of cargo for a customer over a specified trade route within a given period of time. In the year ended December 31, 2002, approximately 20% (2001 – 21%; 2000 – 14%) of net voyage revenues were generated by time-charters and COAs priced on a spot market basis. In the aggregate, approximately 65% (2001 – 78%; 2000 – 82%) of the Company's net voyage revenues during the year ended December 31, 2002 were derived from spot voyages or time-charters and COAs priced on a spot market basis, with the remaining 35% (2001 – 22%; 2000 – 18%) being derived from fixed-rate time-charters and COAs. The change in the Company's composition of net voyage revenues reflects the acquisition of Ugland Nordic Shipping AS in 2001 and the change in spot tanker rates over this period. This dependence on the spot market, which is within industry norms, contributes to the volatility of the Company's revenues, cash flow from operations, and net income.

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

Acquisition of Ugland Nordic Shipping AS

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

UNS is the world's largest owner of shuttle tankers, controlling a modern fleet of 18 vessels (including two newbuildings on order) (the "UNS Fleet") that engage in the transportation of oil from offshore production platforms to onshore storage and refinery facilities. The UNS fleet has an average age of approximately 9.4 years, excluding the two newbuildings on order, and operates primarily in the North Sea under fixed-rate long-term contracts. In addition, as of December 31, 2002, UNS owned approximately 10.3% of Nordic American Tankers Shipping Ltd. (AMEX: NAT) ("NAT"), the owner of three Suezmax tankers on a long-term contract to BP Shipping.

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

Pending Acquisition of Navion ASA

On December 16, 2002, Teekay and Statoil ASA announced that they had entered into an agreement under which the Company will acquire Statoil's wholly-owned shipping company, Navion ASA (excluding its oil drilling ship and related operations and one floating production, storage and offload vessel), on a debt-free basis, for approximately $800 million in cash. The Company anticipates funding its

acquisition of Navion by borrowing under a new credit facility, together with available cash or cash generated from operations and borrowings under other existing credit facilities. The closing of the transaction is expected to take place in the second quarter of 2003.

Navion, based in Norway, operates primarily in the shuttle tanker and the conventional crude oil and product tanker markets. Its modern shuttle tanker fleet, which as of December 31, 2002 consisted of nine owned and 17 chartered-in vessels (including four vessels chartered-in from the Company's subsidiary UNS), provides logistical services to Statoil and other oil companies in the North Sea under fixed-rate, long-term contracts of affreightment. Navion's modern, chartered-in, conventional tanker fleet, which as of December 31, 2002 consisted of 12 crude oil tankers and nine product tankers, operates primarily in the Atlantic region, providing services to Statoil and other oil companies. In addition, Navion owns two floating storage and off-take vessels currently trading as conventional crude tankers in the Atlantic region, and one gas carrier on long-term charter to Statoil.

Through a joint venture with Statoil, Navion is responsible for meeting Statoil's transportation needs for crude oil, condensate and refined petroleum products. As part of this arrangement, Navion has a right of first refusal on Statoil's oil transportation requirements at the prevailing market rate until December 31, 2007. The Company believes this arrangement may increase the utilization of its conventional fleet. The Company also believes that the acquisition of Navion will provide added stability to the Company's cash flow and earnings throughout the tanker market cycle, due to the fixed-rate, long-term nature of Navion's shuttle tanker contracts.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require the Company to make estimates in the application of its accounting policies based on the best assumptions, judgments, and opinions of management. Following is a discussion of the accounting policies that involve a higher degree of judgment and the methods of their application. For a description of additional material accounting policies of the Company, see Note 1 to the Company's consolidated financial statements.

Revenue Recognition

The Company generates a majority of its revenues from voyage charters. Within the shipping industry, the two methods used to account for voyage revenues and expenses are the percentage of completion and the completed voyage methods. For each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. Most shipping companies, including the Company, use the percentage of completion method.

In applying the percentage of completion method, management believes that the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, the Company generally has information about the next load port and expected discharge port, whereas at the time of loading the Company normally is less certain what the next load port will be.

Vessel Lives and Impairment

The carrying value of each of the Company's vessels represents its original cost at the time of delivery or purchase less depreciation calculated using an estimated useful life of 25 years from the date the vessel was originally delivered from the shipyard. In the shipping industry, use of a 25-year life has become the prevailing standard. However, the actual life of a vessel may be different from the 25-year life, with a shorter life potentially resulting in an impairment loss. Regulations of the International Maritime Organization that became effective in April 2001 require the accelerated phase-out of single-hull vessels.

In response to the sinking of the tanker *Prestige*, the European Transport Commission issued a proposal on December 20, 2002, that would, among other things, accelerate the phasing out of single-hull oil tankers and prohibit the transport to or from European Union ports of heavy grades of oil on single-hull tankers. Member countries are currently examining the proposal and consulting with affected parties. The European Transport Council is scheduled to meet on March 27, 2003, to vote on the proposal. Although individual European Union members are currently not required to implement such a proposal, several countries, including some outside the European Union, are considering revisions to their existing pollution regulations applicable to tankers.

If the proposals are adopted in their current form, they could result in higher depreciation expense related to a reduction of the estimated useful life of single-hull vessels for accounting purposes. However, the Company believes that the proposals could also result in a tightening in the world tanker supply and a reallocation of affected tonnage. This could result in firm tanker market conditions and increased tanker freight rates for modern vessels. The Company has not determined the impact, if any, that the adoption of this proposal will have on the Company's results of operation or financial position.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The carrying values of the Company's vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. The Company reviews vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to future undiscounted cash flows the assets are expected to generate. If vessels and equipment are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair market value.

Goodwill

The Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets" and as a result has discontinued amortization of goodwill since January 1, 2002. Pursuant to SFAS 142, goodwill and indefinite lived intangible assets are tested for impairment annually or whenever an impairment indicator arises. An impairment test requires the Company to make estimates of future cash flows. If events or circumstances change, including reductions in anticipated cash flows generated by operations, goodwill could become impaired and require a charge to earnings. Based on the Company's goodwill balance at December 31, 2001, the Company estimates that application of SFAS 142 will result in an annual increase in net income of approximately $4.5 million.

Results of Operations

Bulk shipping industry freight rates are commonly measured at the net voyage revenue level in terms of "time-charter equivalent" ("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, the level of shipping freight rates and port, canal and fuel costs, depending on the trade route upon which a vessel is sailing. 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 revenues and TCE rates.

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

Year Ended December 31, 2002 versus Year Ended December 31, 2001

In response to a slowing global economy, OPEC made a series of oil production cuts during 2001. These cuts resulted in reduced tanker demand, contributing to a significant decline in average TCE rates during the last three quarters of 2001. Average TCE rates continued to decline in the first three quarters of 2002. Primarily due to increased global oil demand and oil production in the fourth quarter of 2002, the general strike in Venezuela, and the sinking of the tanker *Prestige*, TCE rates increased in the fourth quarter of 2002, and have remained strong into the first two months of 2003. Overall, the Company's average TCE rate (excluding the Company's vessels on bareboat charter) decreased 34.0% to $18,995 for the year ended December 31, 2002, from $28,768 for the year ended December 31, 2001.

The Company's average fleet size increased 3.1% in the year ended December 31, 2002, compared to the year ended December 31, 2001, primarily due to the acquisition of UNS, whose operating results were consolidated in the Company's financial statements beginning March 6, 2001.

Net voyage revenues decreased 31.1% to $543.9 million for the year ended December 31, 2002, from $789.5 million for the prior year. The decrease was primarily due to a decline in the Company's average TCE rate, partially offset by the increase in the Company's average fleet size.

Vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lubes, and communication expenses, increased 8.5% to $168.0 million for the year ended December 31, 2002, from $154.8 million for the year ended December 31, 2001, primarily as a result of the acquisition of UNS, higher repair and maintenance costs, and the effect on Norwegian Kroner denominated expenses from the appreciation of the Norwegian Kroner against the US dollar.

Time-charter hire expense decreased 24.3% to $49.9 million for the year ended December 31, 2002, from $66.0 million for the prior year, due primarily to a decrease in the average TCE rates earned in the oil/bulk/ore ("O/B/O") pool managed by the Company, the lower number of vessels owned by minority participants in the O/B/O pool, and a decrease in the average number of vessels time-chartered-in by the Company. The minority participants' share of the O/B/O pool's net voyage revenues, which is reflected as a time-charter hire expense, was $18.3 million for the year ended December 31, 2002, compared to $27.6 million for the year ended December 31, 2001. The average number of vessels time-chartered-in by the Company, excluding the O/B/O vessels, was five in the year ended December 31, 2002, compared to six in the prior year.

Depreciation and amortization expense increased 9.5% to $149.3 million for the year ended December 31, 2002, from $136.3 million for the prior year, mainly due to the acquisition of UNS, which resulted in an increase in the average size and average cost base of the Company's owned fleet, the purchase of a 2001-built Suezmax tanker in June 2002, and increased drydock amortization expense. This was partially offset by the elimination of goodwill amortization. Depreciation and amortization expense included amortization of drydocking costs of $21.8 million for the year ended December 31, 2002, compared to $14.2 million for the prior year. The increase in drydock amortization is primarily the Company's acceleration of drydock maintenance on certain vessels during 2002 and the increase in frequency of required drydockings for vessels older than 15 years of age.

General and administrative expenses increased 17.1% to $57.2 million for the year ended December 31, 2002, from $48.9 million for the prior year, primarily as a result of the acquisition of UNS and an increase in the number of shore staff.

Interest expense decreased 12.5% to $58.0 million for the year ended December 31, 2002, from $66.2 million for the prior year. This decrease reflects lower interest rates, partially offset by the additional debt assumed as part of the UNS acquisition.

Interest income decreased 62.0% to $3.5 million for the year ended December 31, 2002, compared to $9.2 million for the prior year, mainly as a result of lower interest rates.

Other loss of $11.5 million for the year ended December 31, 2002 was primarily comprised of income taxes, the settlement of a contingent payment relating to the Company's purchase in 1993 of all the issued and outstanding shares of Palm Shipping Inc. (now Teekay Chartering Limited), loss on sale of available-for-sale securities, and minority interest expense, partially offset by equity income from 50%-owned joint ventures, dividend income from NAT, and foreign exchange gains. Other income of $10.1 million for the year ended December 31, 2001 was primarily comprised of equity income from 50%-owned joint ventures, dividend income from NAT, gain on the disposition of available-for-sale securities, and foreign exchange gains, partially offset by income tax expense and minority interest expense. Equity income from 50%-owned joint ventures for the year ended December 31, 2001 included a $10.2 million gain on the sale of three 50%-owned vessels.

As a result of the foregoing factors, net income declined to $53.4 million for the year ended December 31, 2002, from $336.5 million for the prior year.

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

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

Average TCE rates were higher in 2001, compared to 2000, due to increased demand for tankers, primarily arising from increased oil production in the first half of 2001. The Company's average TCE rate increased 12.1% to $28,768 for the year ended December 31, 2001 (excluding the Company's vessels on bareboat charter), from $25,661 for the year ended December 31, 2000.

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

Vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lubes, and communication expenses, increased 8.5% to $168.0 million for the year ended December 31, 2002, from $154.8 million for the year ended December 31, 2001, primarily as a result of the acquisition of UNS, higher repair and maintenance costs, and the effect on Norwegian Kroner denominated expenses from the appreciation of the Norwegian Kroner against the US dollar.

Time-charter hire expense increased 23.3% to $66.0 million for the year ended December 31, 2001, from $53.5 million for the prior year, due primarily to an increase in the average number of vessels time-chartered-in by the Company and an increase in the average TCE rates earned in the O/B/O pool managed by the Company. The minority participants' share of the O/B/O pool's net voyage revenues, which is reflected as a time-charter expense, was $27.6 million for the year ended December 31, 2001, compared to $26.3 million for the year ended December 31, 2000. The average number of vessels time-chartered-in by the Company, excluding the O/B/Os, was six in the year ended December 31, 2001, compared to five in the prior year.

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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

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

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

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

Liquidity and Capital Resources

As at December 31, 2002, the Company had total cash and cash equivalents of $284.6 million, compared to $174.9 million as at December 31, 2001, and $181.3 million as at December 31, 2000. The Company's total liquidity, including cash, short-term marketable securities and undrawn long-term borrowings, was $525.3 million as at December 31, 2002, down from $688.2 million as at December 31, 2001, and up from $373.1 million as at December 31, 2000. The decrease in liquidity during the year ended December 31, 2002 was mainly the result of cash used for capital expenditures, a deposit for the purchase of Navion ASA, debt repayments and prepayments, payment of dividends, investment in a joint venture, and a $57.6 million scheduled reduction in the available borrowing limit under the Company's two long-term revolving credit facilities (the "Revolvers"). This was partially offset by net cash flow from operating activities during the year ended December 31, 2002. In the Company's opinion, working capital is sufficient for the Company's present requirements.

Net cash flow from operating activities decreased to $214.4 million in the year ended December 31, 2002, compared to $520.2 million in the year ended December 31, 2001, and $333.3 million in the year ended December 31, 2000. This primarily reflects the significant decrease in the Company's average TCE rate for 2002, partially offset by the increase in the Company's fleet size as a result of the UNS acquisition.

Scheduled debt repayments were $51.8 million during the year ended December 31, 2002, compared to $72.0 million during the year ended December 31, 2001, and $63.8 million during the year ended December 31, 2000. Debt prepayments were $8.0 million during the year ended December 31, 2002, compared to $751.7 million during the year ended December 31, 2001, and $429.9 million during the year ended December 31, 2000.

As at December 31, 2002, the Company's total debt was $1,130.8 million, up from $935.7 million as at December 31, 2001. The Company's Revolvers provided for borrowings of up to $450.7 million, of which $240.7 million was undrawn at December 31, 2002. The amount available under the Revolvers reduces semi-annually, with final balloon reductions in 2006 and 2008. The Company's 8.32% First Preferred Ship Mortgage Notes are due February 1, 2008 and are subject to a sinking fund which will retire $45.0 million of the principal amount of the 8.32% Notes on February 1 of each year, commencing 2004. The Company's unsecured 8.875% Senior Notes are due July 15, 2011. The Company's outstanding term loans reduce in quarterly or semi-annual payments with varying maturities through 2009.

Among other matters, the long-term debt agreements generally provide for such items as maintenance of certain vessel market value-to-loan ratios and minimum consolidated financial covenants, prepayment privileges (in some cases with penalties), and restrictions against the incurrence of new investments by the individual subsidiaries without prior lender consent. The amount of Restricted Payments, as defined, that the Company can make, including dividends and purchases of its own capital stock, was limited to $440.6 million as of December 31, 2002. Certain of the loan agreements require that a minimum level of free cash be maintained. As at December 31, 2002, this amount was $84.8 million.

The Company manages the impact of interest rate changes on earnings and cash flows through its interest rate structure. For the Revolvers, the interest rate structure is based on LIBOR plus a margin depending on the financial leverage of the Company. Interest payments on the term loans are also based on LIBOR plus a margin. As at December 31, 2002, the interest rate swap agreements effectively change the Company's interest rate exposure on $20.0 million of debt from a floating LIBOR rate to an average fixed rate of 5.75%. The interest rate swap agreements expire between March 2003 and May 2004.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Singapore Dollars, Canadian Dollars, Australian Dollars, British Pounds and Norwegian Kroner.

The Company is exposed to market risk from foreign currency fluctuations and changes in interest rates and bunker fuel prices. The Company uses forward foreign currency contracts, interest rate swaps, and bunker fuel swap contracts to manage currency, interest rate, and bunker fuel price risks, but does not use these financial instruments for trading or speculative purposes. As at December 31, 2002, the Company had $65.8 million in forward foreign currency contracts, which expire between January 2003 and December 2004. The Company is also committed to bunker fuel swap contracts totaling 20,400 metric tonnes with a weighted-average price of $116.00 per tonne, which expire between January 2003 and May 2004.

Dividends declared during the year ended December 31, 2002 were $34.1 million, or $0.86 per share.

On September 19, 2001, Teekay announced that its Board of Directors had authorized the repurchase of up to 2,000,000 shares of its Common Stock in the open market. As at December 31, 2002, Teekay had repurchased 561,700 shares of Common Stock at an average price of $27.97 per share.

During the year ended December 31, 2002, the Company incurred capital expenditures for vessels and equipment of $135.7 million. These capital expenditures were primarily for the purchase of a 2001-built Suezmax tanker in June 2002 and for newbuilding installment payments. During September 2002, the Company, through a 50%-owned joint venture, purchased another 2001-built Suezmax tanker for $26.0 million. Cash expenditures for drydocking were $34.9 million in the year ended December 31, 2002, compared to $20.1 million in the year ended December 31, 2001, and $11.9 million in the year ended December 31, 2000. This increase was primarily due to the Company's decision to accelerate drydock maintenance on certain vessels during 2002 and an increase in the Company's fleet size as a result of the UNS acquisition.

As at December 31, 2002, the Company was committed to the construction of two shuttle, three Suezmax and six Aframax tankers scheduled for delivery between March 2003 and October 2004, at a total cost of approximately $496.6 million, excluding capitalized interest. As of December 31, 2002, there have been payments made towards these commitments of $127.3 million and long-term financing arrangements existed for $16.3 million of the unpaid cost of these vessels. It is the Company's intention to finance the remaining unpaid amount of $353.0 million through incremental debt or the utilization of surplus cash balances, or a combination of the two. As of December 31, 2002, the remaining payments required to be made under these newbuilding contracts were $245.9 million in 2003 and $123.4 million in 2004. With the exception of four Aframax tankers scheduled for delivery in 2004, all of the vessels upon delivery will be subject to long-term charter contracts, which expire between 2009 and 2015.

The Company is also committed to a capital lease on an Aframax tanker that is currently under construction and is expected to deliver in the fourth quarter of 2003. The lease will require minimum payments of $66.9 million (including a purchase obligation payment) over the 15-year term of the lease.

The following table summarizes the Company's long-term contractual obligations (excluding commitments of Navion ASA) as at December 31, 2002 (in millions of U.S. dollars).

	2003	2004	2005	2006	2007	There-after	Total
Long-term debt	83.6	104.9	131.1	180.8	84.8	545.6	1,130.8
Chartered-in vessels (operating lease)	25.7	10.8	2.0				38.5
Commitment for future chartered-in vessel (capital lease)	1.3	4.1	4.1	4.1	4.1	49.2	66.9
Newbuilding installments	245.9	123.4					369.3
Total	356.5	243.2	137.2	184.9	88.9	594.8	1,605.5

The Company and certain subsidiaries of the Company have guaranteed their share of the outstanding mortgage debt in three 50%-owned joint venture companies. As of December 31, 2002, the Company and these subsidiaries had guaranteed $82.7 million of such debt, or 50% of the total $165.3 million in outstanding mortgage debt of the joint venture companies. The outstanding mortgage debt has maturity dates ranging from May 2008 to August 2009. These joint venture companies own three shuttle tankers.

In February 2003, the Company completed an offering for gross proceeds of $143.75 million in mandatory convertible equity units pursuant to its currently effective universal shelf registration statement filed with the SEC. Each equity unit includes a forward contract

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

to purchase shares of the Company's common stock on February 16, 2006, and a $25 principal amount, subordinated note due May 18, 2006. The forward contracts provide for contract adjustment payments of 1.25% annually and the notes bear interest at 6.0% annually. Upon settlement of the 5.75 million forward contracts included in the equity units on February 16, 2006, the Company will issue between 3,267,150 and 3,991,075 shares of its Common Stock (depending on the average closing price of the Common Stock for the 20-trading day period ending on the third trading day prior to February 16, 2006). Proceeds from the offering may be used to finance potential acquisitions and for general corporate purposes, including capital expenditures, working capital, and the repayment of debt.

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

Forward-Looking Statements

The Company's Annual Report on Form 20-F for the year ended December 31, 2002 and this Annual Report to Shareholders for 2002 contain certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and the Company's operations, performance and financial condition, including, in particular, statements regarding: Aframax TCE rates; tanker supply and demand; supply and demand for oil; future capital expenditures; the Company's growth strategy and measures to implement such strategy; the Company's competitive strengths; the expected financing, benefits and results of our pending acquisition of Navion ASA; and the future success of the Company. Other statements contained in this report are forward-looking statements and are not based on historical fact, such as statements containing the words "believes," "may," "will," "estimates," "continue," "anticipates," "intends," "expects" and words of similar import. These forward-looking statements, wherever they may occur in this report, are necessarily estimates reflecting the best judgment of senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this report. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Company. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to: changes in production of or demand for oil and petroleum products, either generally or in particular regions; changes in the offshore production of oil; the cyclical nature of the tanker industry and its dependence on oil markets; the supply of tankers available to meet the demand for transportation of petroleum products; charterers' preference for modern tankers; greater or less than anticipated levels of tanker newbuilding orders or greater or less than anticipated rates of tanker scrapping; changes in trading patterns significantly impacting overall tanker tonnage requirements; changes in typical seasonal variations in tanker charter rates; the Company's dependence on spot oil voyages; our potential inability to close our pending acquisition of Navion ASA and our potential inability to integrate effectively the operations of Navion or any other future acquisition with our own; competitive factors in the markets in which the Company operates; environmental and other regulation, including without limitation, the imposition of freight taxes and income taxes; the Company's potential inability to achieve and manage growth; risks associated with operations outside the United States; the potential inability of the Company to generate internal cash flow, to drawdown on existing credit facilities and obtain additional debt or equity financing to fund capital expenditures; the potential inability of the Company to renew long-term contracts; the exercise by charterers of early termination rights in long-term contracts; and other factors detailed from time to time in the Company's periodic reports filed with the U.S. Securities and Exchange Commission. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

Auditor's Report

To the Shareholders of
Teekay Shipping Corporation

We have audited the accompanying consolidated balance sheets of Teekay Shipping Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2002, 2001, and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
We did not audit the financial statements of Ugland Nordic Shipping AS, a wholly-owned subsidiary, for the period from acquisition on March 6, 2001 to December 31, 2001, whose total assets and net voyage revenues for the period from acquisition on March 6, 2001 to December 31, 2001, constituted 21 percent and 10 percent, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report had been furnished to us for that period, and our opinion, insofar as it relates to the amounts included for Ugland Nordic Shipping AS for that period, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teekay Shipping Corporation and subsidiaries as at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years ended December 31, 2002, 2001, and 2000 in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP
Chartered Accountants

Vancouver, Canada,
February 13, 2003 (except for Note 15(b) which is as of February 19, 2003.)

Consolidated Statements of Income

For the years ended
December 31, 2002, 2001 and 2000
(in thousands of U.S. dollars, except share and per share amounts)

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

	2002	2001	2000
NET VOYAGE REVENUES			
Voyage revenues	**$ 783,327**	$ 1,039,056	$ 893,226
Voyage expenses	**239,455**	249,562	248,957
Net voyage revenues	**543,872**	789,494	644,269
OPERATING EXPENSES			
Vessel operating expenses	**168,035**	154,831	125,415
Time-charter hire expense	**49,949**	66,019	53,547
Depreciation and amortization	**149,296**	136,283	100,153
General and administrative	**57,246**	48,898	37,479
	424,526	406,031	316,594
Income from vessel operations	**119,346**	383,463	327,675
OTHER ITEMS			
Interest expense	**(57,974)**	(66,249)	(74,540)
Interest income	**3,494**	9,196	13,021
Other (loss) income *(note 11)*	**(11,475)**	10,108	3,864
	(65,955)	(46,945)	(57,655)
Net income	**$ 53,391**	$ 336,518	$ 270,020
Earnings per common share			
• Basic	**$ 1.35**	$ 8.48	$ 7.02
• Diluted	**$ 1.33**	$ 8.31	$ 6.86
Weighted average number of common shares			
• Basic	**39,630,997**	39,706,799	38,468,158
• Diluted	**40,252,396**	40,488,222	39,368,253

Consolidated Balance Sheets

As at December 31, 2002 and 2001

(in thousands of U.S. dollars)

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

	2002	2001
ASSETS		
Current		
Cash and cash equivalents *(note 6)*	**$ 284,625**	$ 174,950
Marketable securities *(note 4)*	**-**	5,028
Restricted cash	**4,180**	7,833
Accounts receivable	**70,906**	57,519
Prepaid expenses and other assets	**27,847**	22,139
Total current assets	**387,558**	267,469
Marketable securities *(note 4)*	**13,630**	16,026
Vessels and equipment *(note 6)*		
At cost, less accumulated depreciation of $940,082 (December 31, 2001 - $801,985)	**1,928,488**	1,925,844
Advances on newbuilding contracts *(note 13)*	**138,169**	117,254
Total vessels and equipment	**2,066,657**	2,043,098
Restricted cash *(note 6)*	**4,605**	-
Deposit for purchase of Navion ASA *(note 13)*	**76,000**	-
Investment in joint ventures	**56,354**	27,352
Other assets	**29,513**	26,757
Goodwill *(note 1)*	**89,189**	87,079
	$2,723,506	$2,467,781
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable	**$ 22,307**	$ 24,484
Accrued liabilities *(note 5)*	**83,643**	51,011
Current portion of long-term debt *(note 6)*	**83,605**	51,830
Total current liabilities	**189,555**	127,325
Long-term debt *(note 6)*	**1,047,217**	883,872
Other long-term liabilities *(note 1)*	**44,512**	39,407
Total liabilities	**1,281,284**	1,050,604
Minority interest	**20,324**	18,977
Stockholders' equity		
Capital stock *(note 9)*	**470,988**	467,341
Retained earnings	**954,005**	935,660
Accumulated other comprehensive loss	**(3,095)**	(4,801)
Total stockholders' equity	**1,421,898**	1,398,200
	$2,723,506	$2,467,781

Commitments and contingencies *(notes 7, 12, 13 and 15)*

Consolidated Statements of Cash Flows

For the years ended

December 31, 2002, 2001 and 2000

(in thousands of U.S. dollars)

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

	2002	2001	2000
Cash and cash equivalents provided by (used for)			
OPERATING ACTIVITIES			
Net income	**$ 53,391**	$ 336,518	$ 270,020
Non-cash items:			
Depreciation and amortization	**149,296**	136,283	100,153
Loss on disposition of vessels and equipment	**-**	-	1,004
Loss (gain) on disposition of available-for-sale securities	**1,130**	(758)	-
Equity income (net of dividends received: December 31, 2002 - $1,748; December 31, 2001 - $33,514; December 31, 2000 - $8,474)	**(2,775)**	16,190	(1,072)
Deferred income taxes *(note 11)*	**11,413**	6,963	999
Other – net	**(5,049)**	(3,243)	(1,173)
Change in non-cash working capital items related to operating activities *(note 14)*	**7,038**	28,197	(36,676)
Net cash flow from operating activities	**214,444**	520,150	333,255
FINANCING ACTIVITIES			
Net proceeds from long-term debt	**255,185**	688,381	206,000
Scheduled repayments of long-term debt	**(51,830)**	(72,026)	(63,757)
Prepayments of long-term debt	**(8,000)**	(751,738)	(429,926)
Increase in restricted cash	**(952)**	(7,833)	-
Proceeds from issuance of Common Stock	**4,221**	20,584	24,843
Repurchase of Common Stock	**(1,547)**	(14,162)	-
Cash dividends paid	**(34,073)**	(34,094)	(32,973)
Other	**-**	-	2,970
Net cash flow from financing activities	**163,004**	(170,888)	(292,843)
INVESTING ACTIVITIES			
Expenditures for vessels and equipment	**(135,650)**	(184,983)	(43,512)
Expenditures for drydocking	**(34,913)**	(20,064)	(11,941)
Proceeds from disposition of assets	**-**	-	9,713
Deposit for purchase of Navion ASA	**(76,000)**	-	-
Purchase of Ugland Nordic Shipping AS (net of cash acquired of $26,605) *(note 3)*	**-**	(176,453)	(13,114)
Acquisition costs related to purchase of Ugland Nordic Shipping AS *(note 3)*	**-**	(5,067)	-
Acquisition costs related to purchase of Bona Shipholding Ltd.	**-**	(20)	(2,685)
Investment in joint venture	**(26,000)**	-	-
Proceeds from disposition of available-for-sale securities	**6,675**	35,975	-
Purchases of available-for-sale securities	**-**	(5,000)	(17,900)
Other	**(1,885)**	-	-
Net cash flow from investing activities	**(267,773)**	(355,612)	(79,439)
Increase (decrease) in cash and cash equivalents	**109,675**	(6,350)	(39,027)
Cash and cash equivalents, beginning of the period	**174,950**	181,300	220,327
Cash and cash equivalents, end of the period	**$ 284,625**	$ 174,950	$ 181,300

Consolidated Statements of Changes in Stockholders' Equity

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

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

	Thousands of Common Shares #	Common Stock $	Accumulated Other Retained Earnings $	Compre-hensive Income (Loss) $	Compre-hensive Income (Loss) $	Total Stockholders' Equity $
Balance as at December 31, 1999	38,064	427,937	404,130	-		832,067
Net income			270,020		270,020	270,020
Other comprehensive income:						
Unrealized gain on available-for-sale securities				4,555	4,555	4,555
Comprehensive income					274,575	
Dividends declared			(33,001)			(33,001)
Reinvested dividends	1	28				28
Exercise of stock options	1,080	24,843				24,843
Balance as at December 31, 2000	39,145	452,808	641,149	4,555		1,098,512
Net income			336,518		336,518	336,518
Other comprehensive income:						
Unrealized loss on available-for-sale securities				(6,636)	(6,636)	(6,636)
Reclassification adjustment for gain on available for-sale securities included in net income				(3,627)	(3,627)	(3,627)
Cumulative effect of accounting change *(note 12)*				4,155	4,155	4,155
Unrealized loss on derivative instruments *(note 12)*				(2,274)	(2,274)	(2,274)
Reclassification adjustment for gain on derivative instruments *(note 12)*				(974)	(974)	(974)
Comprehensive income					327,162	
Adjustment for equity income on step acquisition *(note 3)*			198			198
Dividends declared			(34,102)			(34,102)
Reinvested dividends	1	8				8
Exercise of stock options	917	20,584				20,584
Repurchase of Common Stock	(513)	(6,059)	(8,103)			(14,162)
Balance as at December 31, 2001	39,550	467,341	935,660	(4,801)		1,398,200
Net income			53,391		53,391	53,391
Other comprehensive income:						
Unrealized loss on available-for-sale securities				(239)	(239)	(239)
Reclassification adjustment for loss on available-for-sale securities included in net income				737	737	737
Unrealized gain on derivative instruments *(note 12)*				3,023	3,023	3,023
Reclassification adjustment for gain on derivative instruments *(note 12)*				(1,815)	(1,815)	(1,815)
Comprehensive income					55,097	
Dividends declared			(34,079)			(34,079)
Reinvested dividends	1	6				6
Exercise of stock options	190	4,221				4,221
Repurchase of Common Stock	(49)	(580)	(967)			(1,547)
Balance as at December 31, 2002	**39,692**	**470,988**	**954,005**	**(3,095)**		**1,421,898**

Notes to the Consolidated Financial Statements

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

1. Summary of Significant Accounting Policies

Basis of presentation

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

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

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.

Operating revenues and expenses

Voyage revenues and expenses are recognized on the percentage of completion method of accounting determined using the discharge-to-discharge basis. 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 which will be earned in subsequent periods.

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

Cash and cash equivalents

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

Cash interest paid during the years ended December 31, 2002, 2001 and 2000, totalled $65.3 million, $54.8 million, and $77.1 million, respectively.

Marketable securities

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

Vessels and equipment

All pre-delivery costs incurred during the construction of 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 from the date a vessel is initially placed in service.

Interest costs capitalized to vessels and equipment for the years ended December 31, 2002, 2001 and 2000 aggregated $6.0 million, $2.5 million, and $nil respectively.

Expenditures incurred during drydocking are capitalized and amortized on a straight-line basis over the period until the completion of the next anticipated drydocking. When significant drydocking expenditures occur prior to the expiry of this period, the remaining unamortized balance of the original drydocking cost is expensed in the month of the subsequent drydocking. Amortization of drydocking expenditures for the years ended December 31, 2002, 2001 and 2000 aggregated $21.8 million, $14.2 million, and $9.2 million, respectively.

The Company reviews vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to future undiscounted cash flows the assets are expected to generate. If vessels and equipment are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair market value.

Investment in joint ventures

The Company has a 50% participating interest in four joint venture companies (2001- three), each of which owns a shuttle tanker. The joint ventures are accounted for using the equity method, whereby the investment is carried at the Company's original cost plus its proportionate share of undistributed earnings.

During 2001, a joint venture in which the Company owns a 50% interest sold its three vessels, and ceased operations (see Note 11).

Investment in the Panamax O/B/O Pool

All oil/bulk/ore carriers ("O/B/O") owned by the Company are operated through a Panamax O/B/O Pool. The participants in the Pool are the companies contributing vessel capacity to the Pool. The voyage revenues and expenses of these vessels have been included on a 100% basis in the consolidated financial statements.

Notes to the Consolidated Financial Statements
(continued)

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

The minority pool participants' share of the result has been deducted as time-charter hire expense.

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

Derivative instruments
Derivative instruments are recorded as assets or liabilities, measured at fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending upon the nature of the hedge, changes in the fair value of the derivatives are either offset against the fair value of assets, liabilities or firm commitments through income, or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized into income (see Note 12).

Goodwill and other intangible assets
In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which establishes new standards for accounting for goodwill and other intangible assets. SFAS 142 requires that goodwill and indefinite lived intangible assets no longer be amortized, but reviewed for impairment during the first six months of 2002 and annually thereafter, or more frequently if impairment indicators arise. This statement is effective for existing goodwill beginning with fiscal years starting after December 15, 2001. Prior to 2002, goodwill, which was acquired as a result of the acquisition of Ugland Nordic Shipping AS ("UNS") (see Note 3), was amortized over 20 years using the straight-line method. As at December 31, 2002, goodwill is recorded net of accumulated amortization of $3.5 million. During the six-month period ended June 30, 2002, the Company completed its transitional impairment testing required by SFAS 142 and determined that goodwill was not impaired. Based upon the Company's goodwill balance at December 31, 2001, the Company estimates that application of SFAS 142 will result in an annual increase in net income of approximately $4.5 million, by no longer amortizing goodwill. Had goodwill not been amortized prior to 2002, net income would have been $340.0 million or $8.56 per share ($8.40 per share - diluted), for the year ended December 31, 2001 and unchanged for 2000.

Income taxes
The legal jurisdictions of the countries in which Teekay and the majority of its subsidiaries are incorporated do not impose income taxes upon shipping-related activities. The Company's Australian shipowning subsidiaries, its Canadian subsidiary Teekay Canadian Tankers Ltd., and its Norwegian subsidiary UNS are subject to income taxes. UNS income taxes are deferred until payment of dividends (see Note 11). Included in other long-term liabilities are deferred income taxes of $43.7 million at December 31, 2002, $36.3 million at December 31, 2001 and $4.2 million at December 31, 2000. The Company accounts for such taxes using the liability method pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

Accounting for Stock-Based Compensation
Under Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", disclosures of stock-based compensation arrangements with employees are required and companies are encouraged (but not required) to record compensation costs associated with employee stock option awards, based on estimated fair values at the grant dates. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 ("APB 25") "Accounting for Stock Issued to Employees". As the exercise price of the Company's employee stock options equals the market price of underlying stock on the date of grant, no compensation expense is recognized under APB 25.

Notes to the Consolidated Financial Statements

(continued)

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

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (see Note 9).

	Year Ended December 31, 2002 $	Year Ended December 31, 2001 $	Year Ended December 31, 2000 $
Net income - as reported	**53,391**	336,518	270,020
Less: Total stock-based compensation expense	**7,538**	6,466	5,571
Net income - pro forma	**45,853**	330,052	264,449
Basic earnings per common share:			
As reported	**1.35**	8.48	7.02
Pro forma	**1.16**	8.31	6.87
Diluted earnings per common share:			
As reported	**1.33**	8.31	6.86
Pro forma	**1.14**	8.15	6.72

The fair values of the option grants were estimated on the dates of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free average interest rates of 4.7% for the year ended December 31, 2002; 4.5% for the year ended December 31, 2001 and 6.6% for the year ended December 31, 2000, respectively; dividend yield of 3.0%; expected volatility of 30%; and expected lives of five years.

Comprehensive income

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

Recent accounting pronouncements

In July 2002, the FASB issued Statement No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities". This Standard, which is effective for disposal activities initiated after December 31, 2002, addresses significant issues regarding the recognition, measurement and reporting of costs associated with exit and disposal activities. The Company does not anticipate that the adoption of SFAS 146 will have a significant impact on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires a guarantor to make significant new disclosures about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for financial statements with periods ending after December 15, 2002. The initial recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company has not determined the effect, if any, that the adoption of FIN 45 will have on the Company's consolidated financial position or results of operations.

2. Business Operations

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

No customer accounted for more than 10% of the Company's consolidated voyage revenues during the year ended December 31, 2002. One customer, an international oil company, accounted for 13% ($130.8 million) of the Company's consolidated voyage revenues during the year ended December 31, 2001. Two customers, both international oil companies, individually accounted for 13% ($118.3 million) and 12% ($110.2 million) of the Company's consolidated voyage revenues during the year ended December 31, 2000. No other customer accounted for more than 10% of the Company's consolidated voyage revenues during the fiscal periods presented herein.

3. Acquisition of Ugland Nordic Shipping AS

As of May 28, 2001, Teekay had purchased 100% of the issued and outstanding shares of UNS (nine per cent of which was purchased in fiscal 2000 and the remaining 91% was purchased in fiscal 2001), for $222.8 million cash, including estimated transaction expenses of approximately $7 million. UNS controls a modern fleet of 18 shuttle tankers (including two newbuildings on order) that engage in the transportation of oil from offshore production platforms to onshore storage and refinery facilities.

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

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

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

4. Investments in Marketable Securities

	Cost $	Gross Unrealized Gains $	Gross Unrealized Losses $	Approximate Market and Carrying Values $
December 31, 2002				
Available-for-sale equity securities	**21,416**	**-**	**(7,786)**	**13,630**
	21,416	**-**	**(7,786)**	**13,630**
December 31, 2001				
Available-for-sale equity securities	24,500	-	(8,474)	16,026
Available-for-sale debt securities	5,028	-	-	5,028
	29,528	-	(8,474)	21,054

Available-for-sale equity securities represent 1,001,221 shares (2001 – 1,150,221) in Nordic American Tanker Shipping Ltd. These shares were acquired as part of the 2001 acquisition of UNS (see Note 3).

The cost and approximate market value of available-for-sale debt securities by contractual maturity, as at December 31, 2002 and December 31, 2001, are shown as follows:

	Cost $	Approximate Market and Carrying Values $
December 31, 2002		
Less than one year	**-**	**-**
Due after one year through five years	**-**	**-**
	-	**-**
December 31, 2001		
Less than one year	5,028	5,028
Due after one year through five years	-	-
	5,028	5,028

Notes to the Consolidated Financial Statements

(continued)

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

5. Accrued Liabilities

	December 31, 2002 $	December 31, 2001 $
Voyage and vessel	**37,314**	16,450
Interest	**22,484**	24,180
Payroll and benefits	**23,845**	10,381
	83,643	51,011

6. Long-Term Debt

	December 31, 2002 $	December 31, 2001 $
Revolving Credit Facilities	**210,000**	-
First Preferred Ship Mortgage Notes (8.32%) due through 2008	**167,229**	167,229
Term Loans due through 2009	**401,593**	416,239
Senior Notes (8.875%) due July 15, 2011	**352,000**	352,234
	1,130,822	935,702
Less current portion	**83,605**	51,830
	1,047,217	883,872

The Company has two long-term Revolving Credit Facilities (the "Revolvers") available, which, as at December 31, 2002, provided for borrowings of up to $450.7 million, of which $240.7 million was undrawn. Interest payments are based on LIBOR (December 31, 2002: 1.4%; December 31, 2001: 1.9%) plus a margin depending on the financial leverage of the Company; at December 31, 2002 and 2001, the margins ranged between 0.50% and 0.75%. The amount available under the Revolvers reduces semi-annually by $28.8 million, with final balloon reductions in 2006 and 2008. The Revolvers are collateralized by first priority mortgages granted on 33 of the Company's vessels, together with certain other related collateral, and a guarantee from Teekay for all amounts outstanding under the Revolvers.

The 8.32% First Preferred Ship Mortgage Notes due February 1, 2008 (the "8.32% Notes") are collateralized by first preferred mortgages on seven of the Company's Aframax tankers, together with certain other related collateral, and are guaranteed by seven subsidiaries of Teekay that own the mortgaged vessels (the "8.32% Notes Guarantor Subsidiaries") to a maximum of 95% of the fair value of their net assets. As at December 31, 2002, the fair value of these net assets approximated $171.6 million. The 8.32% Notes are also subject to a sinking fund, which will retire $45.0 million principal amount of the 8.32% Notes on each February 1, commencing 2004. During June 2001, the Company repurchased a principal amount of $22.0 million of the 8.32% Notes outstanding.

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

The Company has several term loans outstanding, which, as at December 31, 2002, totalled $401.6 million. Interest payments are based on LIBOR plus a margin. At December 31, 2002 and 2001, the margins ranged between 0.50% and 1.45%. The term loans reduce in quarterly or semi-annual payments with varying maturities through 2009. All term loans of the Company are collateralized by first preferred mortgages on the vessels to which the loans relate, together with certain other collateral, and guarantees from Teekay. As at December 31, 2002, UNS had term loans totalling $313.5 million. Teekay does not guarantee any of the obligations of UNS under these facilities. One term loan required a retention deposit of $4.6 million as at December 31, 2002 (December 31, 2001 - $7.8 million).

The 8.875% Senior Notes due July 15, 2011 (the "8.875% Notes") rank equally in right of payment with all of the Company's existing and future senior unsecured debt and senior to the Company's existing and future subordinated debt. The 8.875% Notes are not guaranteed by any of Teekay's subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities, secured and unsecured, of its subsidiaries.

Among other matters, the long-term debt agreements generally provide for such items as maintenance of certain vessel market value to loan ratios and minimum consolidated financial covenants,

prepayment privileges (in some cases with penalties), and restrictions against the incurrence of new investments by the individual subsidiaries without prior lender consent. The amount of Restricted Payments, as defined, that the Company can make, including dividends and purchases of its own capital stock, is limited as of December 31, 2002, to $440.6 million. Certain of the loan agreements require a minimum level of free cash be maintained. As at December 31, 2002, this amount was $84.8 million.

The aggregate annual long-term debt principal repayments required to be made for the five fiscal years subsequent to December 31, 2002 are $83.6 million (2003), $105.1 million (2004), $131.3 million (2005), $181.1 million (2006), and $85.0 million (2007).

7. Leases

Charters-out

Time-charters and bareboat charters to third parties of the Company's vessels are accounted for as operating leases. As at December 31, 2002, minimum future revenues to be received on time-charters and bareboat charters were $176.7 million (2003), $189.6 million (2004), $146.7 million (2005), $101.9 million (2006), $94.4 million (2007), and $546.5 million thereafter.

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

Charters-in

As at December 31, 2002, minimum commitments under vessel operating leases were $25.7 million (2003), $10.8 million (2004) and $2.0 million (2005).

8. Fair Value of Financial Instruments

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

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

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

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

	December 31, 2002		December 31, 2001	
	Carrying Amount $	**Fair Value $**	Carrying Amount $	Fair Value $
Cash and cash equivalents, marketable securities, and restricted cash	**307,040**	**307,040**	203,837	203,837
Long-term debt	**(1,130,822)**	**(1,143,753)**	(935,702)	(952,055)
Derivative instruments *(note 12)*				
Interest rate swap agreements	**(802)**	**(802)**	(2,429)	(2,429)
Foreign currency contracts	**545**	**545**	(343)	(343)
Bunker fuel swap contracts	**254**	**254**	(328)	(328)
Written freight call option	**-**	**-**	(857)	(857)

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

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

Notes to the Consolidated Financial Statements

(continued)

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

9. Capital Stock

The authorized capital stock of Teekay at December 31, 2002 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, 2002, Teekay had 39,692,060 shares of Common Stock and no shares of Preferred Stock issued and outstanding.

On September 19, 2001, Teekay announced that its Board of Directors had authorized the repurchase of up to 2,000,000 shares of its Common Stock in the open market. As at December 31, 2002, Teekay had repurchased 561,700 shares of Common Stock at an average price of $27.97 per share.

As of December 31, 2002, the Company had reserved 5,803,471 shares of Common Stock for issuance upon exercise of options granted pursuant to the Company's 1995 Stock Option Plan (the "Plan"). During the years ended December 31, 2002, 2001, and 2000, the Company granted options under the Plan to acquire up to 1,026,025, 863,200, and 889,500 shares of Common Stock, respectively, to certain eligible officers, employees (including senior sea staff), and directors of the Company. The options have a 10-year term and had initially vested equally over four years from the date of grant. Effective September 8, 2000, the Company amended the Plan which reduced the vesting period for all subsequent stock option grants from four years to three years. In addition, the Company also accelerated the vesting period for the existing grants by one year. The impact of the accelerated vesting for the existing grants on compensation expense was not material for the years ended December 31, 2002, 2001 and 2000.

A summary of the Company's stock option activity, and related information for the years ended December 31, 2002, 2001 and 2000 is as follows:

	December 31, 2002		December 31, 2001		December 31, 2000	
	Options (000's) #	**Weighted-Average Exercise Price $**	Options (000's) #	Weighted Average Exercise Price $	Options (000's) #	Weighted Average Exercise Price $
Outstanding-beginning of year	**2,740**	**28.04**	2,860	22.25	3,099	22.14
Granted	**1,026**	**39.12**	863	41.19	889	23.56
Exercised	**(190)**	**22.16**	(917)	22.44	(1,080)	23.00
Forfeited	**(69)**	**33.86**	(66)	26.86	(48)	22.77
Outstanding-end of year	**3,507**	**31.46**	2,740	28.04	2,860	22.25
Exercisable- end of year	**1,739**	**24.97**	1,164	22.99	1,453	23.54
Weighted-average fair value of options granted during the year (per option)		**9.79**		10.19		6.62

Exercise prices for the options outstanding as of December 31, 2002 ranged from $16.88 per share to $41.19 per share. These options have a weighted-average remaining contractual life of 7.53 years.

10. Related Party Transactions

As at December 31, 2002, Resolute Investments, Inc. owned 41.6% of the Company's outstanding Common Stock. Two of the Company's directors are officers and directors of Resolute Investments, Inc. Two additional directors of the Company are directors of the entity that controls Resolute Investments, Inc.

Payments made by the Company to Resolute Investments, Inc. or companies related through common ownership in respect of port agent services, legal and administration fees, shared office costs, and consulting fees for the years ended December 31, 2002, 2001 and 2000 totalled $0.9 million, $1.5 million, and $1.6 million, respectively. In 1993 the Company purchased all of the issued and outstanding shares of Palm Shipping Inc. (now Teekay Chartering Limited) from an affiliate of Resolute Investments, Inc. During the year ended December 31, 2002, the Company accrued and expensed in Other (loss) income $6.0 million as a settlement of a contingent payment, which was required under the terms of the Palm Shipping acquisition agreement.

Notes to the Consolidated Financial Statements (continued)

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

11. Other (Loss) Income

	Year Ended December 31, 2002 $	Year Ended December 31, 2001 $	Year Ended December 31, 2000 $
Loss on disposition of vessels and equipment	**-**	-	(1,004)
(Loss) gain on disposition of available-for-sale securities	**(1,130)**	758	-
Equity income from joint ventures	**4,523**	17,324	9,546
Deferred income taxes	**(11,413)**	(6,963)	(999)
Miscellaneous	**(3,455)**	(1,011)	(3,679)
	(11,475)	10,108	3,864

12. Derivative Instruments and Hedging Activities

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

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

The Company hedges portions of its forecasted expenditures denominated in foreign currencies with forward contracts and a portion of its bunker fuel expenditures with bunker fuel swap contracts. As at December 31, 2002, the Company was committed to foreign exchange contracts for the forward purchase of approximately Singapore Dollars 2.0 million, Norwegian Kroner 74.3 million, Canadian Dollars 84.0 million and Euros 1.9 million for U.S. Dollars, at an average rate of Singapore Dollar 1.78 per U.S. Dollar, Norwegian Kroner 7 .39 per U.S. Dollar, Canadian Dollar 1.59 per U.S. Dollar and Euros 0.93 per U.S. Dollar, respectively. As at December 31, 2002, the Company was committed to bunker fuel swap contracts totalling 20,400 metric tonnes with a weighted-average price of $116.00 per tonne, which expire between January 2003 and May 2004.

As at December 31, 2002, the Company was committed to interest rate swap agreements whereby $20.0 million of the Company's floating rate debt was swapped with fixed rate obligations having a weighted-average remaining term of 10 months, expiring between March 2003 and May 2004. These agreements effectively change the Company's interest rate exposure on $20.0 million of debt from a floating LIBOR rate to a weighted-average fixed rate of 5.75%.

The Company is exposed to credit loss in the event of non-performance by the counter parties to the interest rate swap agreements, foreign exchange forward contracts, and bunker fuel swap contracts; however, the Company does not anticipate non-performance by any of the counter parties.

During the year ended December 31, 2002, the Company recognized a net gain of $0.1 million relating to the ineffective portion of its interest rate swap agreements and foreign currency forward contracts. The ineffective portion of these derivative instruments is presented as interest expense and other (loss) income, respectively.

As at December 31, 2002, the Company estimates, based on current foreign exchange rates, bunker fuel prices and interest rates, that it will reclassify approximately $1.5 million of net gain on derivative instruments from accumulated other comprehensive income to earnings during the next 12 months due to actual voyage, vessel operating, drydocking and general and administrative expenditures and the payment of interest expense associated with the floating-rate debt.

13. Commitments and Contingencies

As at December 31, 2002, the Company was committed to the construction of two shuttle, three Suezmax and six Aframax tankers scheduled for delivery between March 2003 and October 2004, at a total cost of approximately $496.6 million, excluding capitalized interest. As of December 31, 2002, payments made towards these commitments totaled $127.3 million and long-term financing arrangements existed for $16.3 million of the unpaid cost of these vessels. It is the Company's intention to finance the remaining unpaid amount of $353.0 million through incremental debt or the utilization of surplus cash balances,

Notes to the Consolidated Financial Statements
(continued)

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

or a combination thereof. As of December 31, 2002, the remaining payments required to be made under these newbuilding contracts were $245.9 million in 2003, and $123.4 million in 2004. With the exception of four Aframax tankers scheduled for delivery in 2004, all of the vessels upon delivery will be subject to long-term charter contracts, which expire between 2009 and 2015.

The Company is also committed to a capital lease on an Aframax tanker that is currently under construction and is expected to deliver in the fourth quarter of 2003. The lease will require minimum payments of $66.9 million (including a purchase obligation payment) over the 15-year term of the lease.

Teekay and certain subsidiaries of Teekay have guaranteed their share of the outstanding mortgage debt in three 50%-owned joint venture companies. As of December 31, 2002, Teekay and these subsidiaries had guaranteed $82.7 million of such debt, or 50% of the total $165.3 million in outstanding mortgage debt of the joint venture companies. The outstanding mortgage debt has maturity dates ranging from May 2008 to August 2009. These joint venture companies own three shuttle tankers.

On December 16, 2002, Teekay and Statoil ASA announced that they had entered into an agreement under which Teekay will acquire Statoil's wholly-owned shipping company, Navion ASA (excluding its oil drilling ship and related operations and one floating production, storage and offload vessel), on a debt free-basis, for approximately $800.0 million in cash. Navion, based in Norway, operates primarily in the shuttle tanker and the conventional crude oil and product tanker markets. As of December 31, 2002, the Company had made a deposit of $76.0 million towards the purchase price, with the remaining unpaid amount being due upon closing, which is expected to take place in the second quarter of 2003. It is anticipated that the acquisition of Navion will be funded by borrowings under a new credit facility, together with available cash or cash generated from operations and borrowings under other existing credit facilities.

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

	Year Ended December 31, 2002 $	Year Ended December 31, 2001 $	Year Ended December 31, 2000 $
Accounts receivable	**(13,508)**	23,993	(49,405)
Prepaid expenses and other assets	**(5,002)**	5,152	3,443
Accounts payable	**27,375**	666	2,613
Accrued liabilities	**(1,827)**	(1,614)	6,673
	7,038	28,197	(36,676)

15. Subsequent Events

(a) On February 1, 2003, one of the Company's vessels, the *Alliance Spirit*, was empty of cargo and waiting off Skikda, Algeria to load crude oil when a severe storm arose and pushed the vessel aground. Subsequent to the grounding, the vessel has been classified as a constructive total loss. Although all bunker fuel, diesel fuel, lube oils, paints and chemicals on board have been successfully removed from the vessel, between 40 and 80 metric tonnes of residual oil remain in the cargo tanks. The vessel is insured for its full value and thus, the Company has requested payment of the insurance proceeds, which is anticipated to cover the vessel's full value. The Company also maintains insurance coverage on the vessel for environmental damage or pollution liability in an amount of $1 billion. The Company believes any liability resulting from the escape of any oil into the environment would be substantially below this amount. Under the applicable global convention, any liability above $1 billion for any oil spill in this region relating to this incident would be limited to approximately $32 million.

(b) As of February 18, 2003, the Company completed an offering for gross proceeds of $143.75 million in mandatory convertible equity units pursuant to its currently effective universal shelf registration statement filed with the U.S. Securities and Exchange Commission. Each equity unit includes a contract to purchase shares of the Company's common stock on February 16, 2006 and a $25 principal amount, subordinated note due May 18, 2006. The forward contracts provide for contract adjustment payments of 1.25% annually and the notes bear interest at 6.0% annually. Upon settlement of the 5.75 million forward contracts included in the equity units on February 16, 2006, the Company will issue between 3,267,150 and 3,991,075 shares of its Common Stock (depending on the average closing price of the Common Stock for the 20-trading day period ending on the third trading day prior to February 16, 2006). Proceeds from the offering may be used to finance potential acquisitions and for general corporate purposes, including capital expenditures, working capital, and the repayment of debt.

Five-Year Summary of Financial Information

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

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Nine Months Ended December 31, 1999	Year Ended March 31, 1999
Income Statement Data:					
Net voyage revenues	**$ 543,872**	$ 789,494	$ 644,269	$ 248,350	$ 318,411
Income from vessel operations	**119,346**	383,463	327,675	23,572	85,634
Net income (loss)	**53,391**	336,518	270,020	(19,595)	45,406
Per Share Data:					
Fully diluted earnings (loss) per share	**$ 1.33**	$ 8.31	$ 6.86	$ (0.54)	$ 1.46
Weighted average shares outstanding-diluted (thousands)	**40,252**	40,488	39,368	36,405	31,063
Balance Sheet Data (at end of period):					
Total assets	**$2,723,506**	$2,467,181	$1,974,099	$1,982,684	$1,452,220
Total stockholders' equity	**1,421,898**	1,398,200	1,098,512	832,067	777,390
Other Financial Data:					
EBITDA	**$ 278,061**	$ 539,324	$ 451,066	$ 95,875	$ 186,069
Net debt to capitalization (%)	**36.4**	34.3	34.3	50.7	39.6
Capital expenditures:					
Vessel purchases, gross*	**$ 135,650**	$ 544,737	$ 43,512	$ 452,584	$ 85,445
Drydocking	**34,913**	20,064	11,941	6,598	11,749
Fleet Data:					
Average number of ships	**89**	85	74	68	47
Aframax time-charter equivalent (TCE)	**$ 18,205**	$ 30,542	$ 27,138	$ 13,462	$ 19,576
Total fleet operating cash flow per ship per day	**8,168**	17,682	16,687	5,177	11,171

** Includes vessels from acquisitions.*

Board of Directors

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

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

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

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

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

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

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

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

Bjorn Moller
Director, President and CEO

Teekay Board Committees

Audit Committee

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

Nominating and Governance Committee

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

Compensation Committee

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

Corporate Information

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P.O. Box AP-59212
Nassau, The Bahamas

Stock Transfer Agent and Registrar

The Bank of New York
101 Barclay Street, 11 West
P.O. Box 11258
Church Street Station
New York, New York 10286

Tel: 1-800-524-4458

Share Price Information

The following table sets forth on a per share basis the high and low sales prices for consolidated trading in the Company's common shares on the New York Stock Exchange for each quarter during the 12 months ended December 31, 2002:

Quarter Ended	High	Low	Dividends Declared (Per Share)
Mar. 31, 2002	$39.12	$32.05	$0.215
Jun. 30, 2002	$40.58	$35.05	$0.215
Sept. 30, 2002	$36.50	$27.90	$0.215
Dec. 31, 2002	$44.70	$26.35	$0.215

Stock Exchange Listing

New York Stock Exchange
Symbol: TK
There were 39,691,710 million shares outstanding at December 31, 2002.

Investor Relations

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

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TEEKAY SHIPPING CORPORATION

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