Teekay Offshore Partners L.P.
First Quarter 2007 Earnings Release Conference Call
May 11, 2007

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Teekay Offshore Partners First Quarter 2007 Earnings Release Conference Call. During the call, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a Q&A session. At that time, if you have a question, participants will be asked to press star, one, to register for a question. For assistance during the call, please press star, zero, on your touch tone phone. As a reminder, this call is being recorded.

Now, for opening remarks and introductions, I would like to turn the call over to Mr. Peter Evensen, Chief Executive Officer. Please go ahead, sir.

Dave Drummond: Before Mr. Evensen begins and before I read the forward-looking statements, I would like to direct all participants to our website at: www.teekayoffshore.com where you will find a copy of the first quarter 2007 earnings presentations. Mr. Evensen will review this presentation during today's conference call.

I will now read the forward-looking statements. We would like to remind you that various remarks we may make about future expectations, plans and prospects for the partnership and the shipping industry constitute forward-looking statements for the purposes of the Safe Harbor Provisions under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in our most recent annual report on Form 20-F for the year end of December 31st, 2006, on file with the SEC.

I will now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you, Dave. Good morning and thank you for joining us today. With me today, are Vince Lok, and Brian Fortier from Teekay Shipping.

Turning to the presentation and to slide three and reviewing the first quarter highlights. We're pleased to report that the results for the first quarter exceeded expectations. We generated 9 million of distributable cash flow and, as expected, we declared a cash distribution of 7 million or $0.35 per unit representing an annualized distribution of $1.40 per unit. The cash distribution is payable on May 14th to all unit holders of record on May 1st.

Net income for the first quarter was $6.8 million. These results included foreign currency translation losses of 4.2 million which do not affect the Partnership's cash flows or the calculation of distributable cash flow.

Teekay recently delivered one shuttle tanker to Petrobras and is currently in the process of converting a second shuttle tanker and upgrading an FSO unit. Within a year after they are delivered, Teekay, our sponsor, will be required to offer the Partnership the opportunity to directly acquire these vessels and their associated long term fixed rate contracts.

As a reminder, the Partnership's primary asset currently is the 26% ownership interest in Teekay Offshore Operating LP, or OPCO, and OPCO's current fleet includes 36 shuttle tankers, four floating storage units and nine Aframax class conventional crude oil tankers, all on long term charter. Over time, we expect Teekay will sell some or all of its 74% interest in OPCO to the partnership, which will help us maintain our goal of double digit annual distribution growth.

Turning next to slide four, in reviewing the distributable cash flow and cash distribution for the quarter, we generated 9 million of DCF, resulting in a coverage ratio of 1.28 times. DCF deducts estimated maintenance cap ex which represents dry docking expenditures and the cost of acquiring and building vessels which maintain the operating capacity of the fleet. Because of the timing and maintenance, cap ex can vary significantly. We are required by the Partnership agreement to deduct an estimate of the average maintenance cap ex each period and to maintain the operating capacity of our fleet. Teekay Shipping Corporation's 74% portion of OPCO's DCF and the cash flow belonging to our joint venture partner, for five of the shuttle tankers is also deducted from the partnership's DCS.

Turning next to slide five and reviewing the operating results for our three segments. Overall, cash flow from vessel operations or CFVO amounted to 73 million compared to 63 million in the fourth quarter of 2006.

Our shuttle tanker segment generated CFVO of 47.7 million, up from 42.9 million in the fourth quarter. This increase primarily reflects the consolidation of five 50% owned shuttle tankers which previously were equity accounted for. On December 1st of last year, the operating agreements for these joint ventures were amended and resulted in OPCO obtaining control of these joint ventures and, therefore, consolidating these entities effective December 1st.

Our conventional tanker segment generated CFVO of 21.4 million, up from 17.6 million in the fourth quarter. This increase is primarily due to the inclusion of the results from the Navion Saga which temporarily traded in the spot market as a conventional crude oil tanker during the quarter. This vessel will commence a three year floating storage time charter contract commencing in the second quarter of 2007.

Our floating storage segment generated CFVO of 3.6 million, up from 2.9 million in the fourth quarter and this increase is primarily due to a scheduled dry docking of one of OPCO's floating storage units during the fourth quarter.

Turning next to slide six, and reviewing the income statement for the first quarter and comparing it to the forecast for the same period, the forecast presented is based on the forecast included in the Partnership's Prospectus for the entire year ending December 31st, 2007. And, we've pro-rated it for one quarter.

The Partnership results for the first quarter came in generally in line with that forecast with a few exceptions. The foreign exchange loss of 4.6 million in the first quarter is primarily the result of the translation of certain balance sheet items from Norwegian Kroner to US Dollars. This amount is unrealized and does not impact our distributable cash.

The income tax recovery of 3.9 million results from changes to our deferred tax balances, which similarly are also non-cash items and again do not impact distributable cash flow.

Net voyage revenues are higher than forecast, resulting from the seasonally stronger results we typically experience in the winter quarters. As anticipated, the Partnership shuttle tanker fleet benefited from seasonally strong oil production in the North Sea in the first quarter. Since regular maintenance of offshore oil facilities in the North Sea typically occurs during the spring and summer months, a portion of the Partnership shuttle tanker fleet usually experiences lower utilization during these periods and higher utilization in the winter months. As a result, we have scheduled most of our planned shuttle tankers fleet dry dockings during the next couple of quarters, with six vessels in the second quarter and three vessels scheduled in the third quarter.

As a result of the seasonality of our business, we expect our distributable cash flow to decrease in the second and third quarters and may result in our coverage ratio being less than 1.0 times in one of those quarters. We do not expect the fourth quarter, or excuse me, we do expect the fourth quarter coverage ratio to be significantly higher and, therefore, still expect to be on target with an anticipated annual average coverage ratio of approximately 1.1 times.

Turning next to slide seven, we presented our March 31st balance sheet alongside the December 31st balance sheet. As we consolidate 100% of OPCO, Teekay Shipping Corporation's 74% interest in the net assets and liabilities, OPCO has been shown as a non-controlling interest on the balance sheet. Our balance sheet remains strong with net debt to EBITDA of roughly 4.25 times.

In addition, the Partnership had total liquidity of approximately 442 million at the end of the quarter. As a result, we feel the Partnership is in a strong financial position and has the capacity to take advantage of acquisition opportunities without necessarily having to issue new units.

In closing, let me say we appreciate the positive response from the investor community to Teekay Offshore. We think we're off to a great start and our mission is to continue to grow the fleet and our distributions. Thank you all for listening and operator, I'm now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, press star, one, on your touch tone phone. To withdraw your question, press the pound sign. If you use the speaker phone, lift your handset before entering your request. Please stand by for your first question. Once again, ladies and gentlemen, if you do have a question, please press star, one, at this time.

Your first question comes from Steven Williams of Simmons. Please go ahead.

Steven Williams: Yeah, hi. I just got a quick question regarding the conventional contract revenues. They are a little bit higher than I expected and I know you said those - the addition of the one vessel that was trading on the spot market at this time, it still seems higher than I would have thought. I think it was 89 million over a year for that segment. I divide that by four ago; that implies that extra vessel earned about 7 million in the quarter which seemed a little too much and wondering if you can clarify that for me?

Peter Evensen: Well, we get some movement as it relates to some of the voyage expenses. The expenses of the fleet so we will probably take some of that back in the next quarter going forward, but that's why you get some oscillation. We've taken the annualized results and we've divided it by four and sometimes that makes things worse, I mean, makes them a little higher.

Steven Williams: Okay, (inaudible) understand. Thank you.

Operator: Thank you. Your next question comes from Wyatt MacCormick , of Raymond James. Please go ahead.

Wyatt MacCormick: Yes, hi. I'd like to know the length of the charters for the shuttle tankers offered to Petrobras?

Peter Evensen: They are - those two units that will be offered to the Partnership are 13 year contracts.

Wyatt MacCormick: Right. Thank you.

Operator: Thank you. Ladies and gentlemen, if there any additional questions please press star, one, at this time.

There are no further questions at this time. Mr. Evensen, I will turn the call back to you.

Peter Evensen: Okay, thanks very much. This was our first full quarter operating, and again, I thank you for all your support and tell you that we're committed to growing the distributions at a double digit annually. Thanks very much. Bye.

Operator: Ladies and gentlemen, this does conclude your conference call for today. You may now disconnect your line and have a great day.