TEEKAY OFFSHORE PARTNERS L.P.

Moderator: Peter Evensen
August 3, 2007
9:00 a.m. CT

Operator: Welcome to Teekay Offshore Partners, LP Second Quarter 2007 Earnings Release Conference Call. During the call, all participants will be in a listen-only mode. Afterwards, we will invite the participants to a Q&A answer session. At that time, if you do a have a question, please press star-one to register. Should you require operator assistance, please press star-zero on your touch-tone phone. As a reminder, this conference is being recorded.

I now would like to turn the call over to Mr. Peter Evensen, Chief Executive Officer of Teekay Offshore GP. Please go ahead, sir.

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

Please allow me to remind you that various remarks we may make about future expectations, plans and process for the partnership and the shipping industry constitute forward-looking statements for the purposes of the Safe Harbour Provision 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 dated 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 from Teekay Corporation are Vince Lok and Brian Fortier.

Turning to slide three of the presentation in reviewing the second quarter highlights, we are pleased to report that the results for the second quarter met expectations. We generated $7.6 million of distributable cash flow, and as expected we declared a cash distribution of $7 million, or 35 cents per unit, representing an annualized distribution of $1.40 per unit. This cash distribution is payable on August 14th to all unit holders of record on August 9th.

Net income for the second quarter was $3.7 million. These results included foreign currency translation losses of $5.8 million which do not affect the partnership's cash flows or the calculation of distributable cash flow.

In July, Teekay Offshore acquired interest in two double-hull shuttle tankers for a total cost of approximately $160 million from Teekay Corporation. The partnership acquired the 2000 built Navion Bergen and Teekay's 50 percent ownership interest in the 2006 built Navion Gothenburg together with their respective 13-year fixed rate charters to a subsidiary of Petrabras.

These vessels are expected to generate a total of approximately $3.5 million in distributable cash flow annually. With the acquisition of these two vessels, we will recommend to the Board of Directors a 10 percent increase in our quarterly cash distribution to 38.5 cents per unit, or $1.54

per unit on an annualized basis, commencing with the third quarter distribution to be paid in November 2007.

During July, the partnership also received an offer from Teekay to acquire one FSO, or floating storage unit, and its associated long-term fixed rate contract with Apache Corporation of Australia for a total cost of approximately $30 million. This vessel is expected to generate an additional six cents per share in distributable cash flow annually.

As a reminder, the partnership's primary asset it the 26 percent ownership interest in Teekay Offshore Operating, LP, or OPCO, and OPCO's current fleet includes 36 shuttle tankers, four floating storage units and nine Afrarmax class conventional crude oil tankers, all on long-term charter. It's important to note that the Navion Bergen and Navion Gothenburg and the Dampier Spirit acquisitions are at the Teekay Offshore level rather than the OPCO level and therefore has a magnified impact on the partnership's cash flows.

Over time we expect that Teekay will sell some or all of its 74 percent interest in OPCO to the partnership which, along with other growth opportunities, will help us maintain our growth of minimum mid-teen, double digit annual distribution growth.

Turning next to slide four and reviewing the distributable cash flow and cash distribution for the quarter, we generated $7.6 million of distributable cash flow resulting in a healthy coverage ratio of 1.09 times, especially considering that the second and third quarters are our seasonally low periods. Teekay Corporation's 74 percent portion of OPCO's distributable cash flow and the cash flow flowing to our joint venture partner for the five shuttle tankers is also deducted from the partnership's DCF.

Turning next to slide five in reviewing the operating results for our three segments, overall cash flow from vessel operations, or CFVO, amounted to $66 million compared to $73 million last quarter. Our shuttle tanker segment generated CFVO of $42.2 million, down from $47.7 million in the first quarter. This decrease in the second quarter, which also applies to the third quarter, is part of a normal seasonal pattern which is caused by North Sea oil field maintenance leading to reduced shuttle tanker demand.

This year we used the time to schedule more drydockings of our vessels rather than trade them in the conventional tanker markets. In addition, we maintained higher utilization by employing one vessel in the eastern Canada shuttle trade.

Our conventional tanker segment generated CFVO of $17.2 million, down from $21.4 million in the first quarter. This decrease is primarily due to the inclusion of the results from the Navion Saga for only one month in this segment. This vessel commenced its three-year FSO time charter contract in May 2007 at which time its results were included as part of the FSO segment. Furthermore, the scheduled dry docking of two conventional tankers during the second quarter resulted in higher off hire days as compared with the previous quarter.

Our FSO segment generated CFVO of $6.6 million, up from $3.6 million in the first quarter, and this increase is primarily due to the inclusion of the Navion Saga in this segment beginning May 2007 as I mentioned earlier.

Turning next to slide six and reviewing the income statement for the second quarter and comparing it to the last quarter, net voyage revenues decreased by $3.8 million from the last quarter due to the higher level of dry dockings as previously mentioned and offset by the increase in revenues from the Navion Saga as it commenced a new time charter contract with (sod) oil in May as an FSO, which generates higher earnings.

Vessel operating expenses increased by $3.3 million from the last quarter due to this higher level of maintenance worked performed on the shuttle tankers and an increase in operating costs on the Navion Saga, as the vessel incurs higher manning costs as an FSO to meet offshore obligations.

The time charter hire expense decreased by $1.6 million from the last quarter mainly due to the drydocking of some of our in-charter shuttle tankers. The foreign exchange loss of $5.8 million is primarily the results of the translation of certain balance sheet from Norwegian Kroner to U.S. dollars, and this amount is unrealized and does not impact our distributable cash flow. The income tax expense of $0.5 million results from changes to our deferred tax balances which are non-cash and, again, do not impact distributable cash flow.

Turning next to slide seven, we've presented our June 30th balance sheet alongside the March 31st balance sheet. As we consolidated 100 percent of OPCO, Teekay Corporation's 74 percent interest in the net assets and liabilities have been shown as a non-controlling interest on the balance sheet. Our balance sheet remains strong with net debt to EBITDA of roughly 4.2 times. In addition, the partnership had total liquidity of $387 million at the end of the quarter. As a result, we feel the partnership is in a strong position and has the capacity to take advantage of acquisition opportunities.

In closing, we're pleased that we're able to recommend to our Board of Directors a 10 percent increase in our cash distribution in the third quarter as a result of our first acquisition and the additional six cents per unit of distributable cash flow we expect from the third quarter acquisition of the Dampier Spirit should allow us to raise the distribution again later in the year for a total annual increase in cash distributions of 15 percent. We will continue to execute on our plan to increase the partnership's distributable cash flow both through acquisitions of shuttle tankers, floating storage units and, of course, FPSO units against long-term contracts.

Thank you all for listening, and, Operator, I'm now available to take questions.

Operator: Thank you, sir.

Ladies and gentlemen, if you would like to ask a question, please press star-one on your touch-tone phone, but remember, if you are using a speakerphone, you will need to lift the handset and then press star-one. And to withdraw a question, please press the pound key sign. Please press star-one now to register for your question.

And our first participant is Darren Horrowitz of Raymond James. Please go ahead.

Darren Horrowitz: Good morning. Thank you. My question relates to the shuttle tankers, specifically the two additional shuttle tankers that are scheduled for delivery in 2011. I know it's early on at this point, but when you're looking at trying to contract those vessels and you're looking at longer term fixed rate contracts versus maybe some of the OPCO contracts in the North Sea, are you leaning more towards some longer term fixed rate contracts given the expected seasonal maintenance impact on utilization?

Peter Evensen: No, we actually think that there will—that we'll be able to expand our contract of afreightment contracts in the future by the time those ships are delivered. And we're also looking at longer term charter contracts outside the North Sea region, so it could go either way actually.

Darren Horrowitz: OK. For the contracts that you're looking at, can we assume that previous contracts and shuttle tankers as the benchmark, or are there any differences?

Peter Evensen: No, I think that would be right in line terms of an IRR. The shuttle tankers cost a little bit more, so we would expect to get a higher EBITDA.

Darren Horrowitz: OK. And can you remind me again what the target IRR is on that asset class?

Peter Evensen: We're looking for about 10 percent—10 to 12 percent, but I would say right now closer to 10 percent on shuttle tankers.

Darren Horrowitz: Thank you very much.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions at this time, please press star-one on your touch-tone phone, remembering to lift your handset first if you are on a speakerphone.

And our next question will now come from Stephen Williams of Simmons. Please go ahead.

Stephen Williams: Yes, hi. Can I just check, whilst you're still a minority owner of OPCO, should I expect any acquisitions in the future to also be at the COO level, so OPCO won't be buying any more vessels?

Peter Evensen: That's correct. We're—I'm not saying that we won't. OPCO has some purchase options on some ships that are time chartered in, so we may declare those purchase options, but that won't have a material impact. But any future acquisitions we expect to do at the Teekay Offshore level because that gives us a much greater effect.

Stephen Williams: OK, that's fine. And then do you expect on the whole, you know, outside of—excluding Teekay vessels, you know, are there a lot of—is there any secondhand type opportunities, or would you generally be looking at new builds?

Peter Evensen: There are a few second hand shuttle tank—or secondhand – excuse me – shuttle tankers that we're looking at, but we have about, you know, 65 percent market share, so there aren't that many. But there are opportunities to move from a single time charter contract into more of a volume contract basis, and that's where I think Teekay has an advantage, because we are really the only operator.

So in a region where they need more than one vessel or, let's say, 1.4 vessels, then I think we have a real opportunity to pick up market share, and that's really what we're hoping for. But outside of that, there are existing floating storage units and FPSOs that we have targeted as possible acquisitions. Of course they would have to come with long-term contracts.

Stephen Williams: OK. And that kind of leads into my final question. Is there any kind of feel for the sort of portion of growth that's going to occur in those various vessel types, so short of tankers versus FPSOs?

Peter Evensen: Yes, we would expect—over time we would expect FPSO to be a much bigger opportunity. We don't have any right now in Teekay Offshore, but as you know we have our joint venture with Teekay Petrojarl. That means that whenever Teekay has 50 percent ownership of an FPSO it must be offered to Teekay Offshore. So any future projects and if Teekay takes control of 100 percent of Teekay Petrojarl – they only have about 65 percent now – then those existing four units could be offered to our partnership as well.

So we expect that if you look forward like five years from now the FPSOs will probably dominate in terms of acquisitions, because that's just a much bigger market, and it's a bigger market opportunity.

Stephen Williams: OK. That was great. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. And at this time, Mr. Evensen, we have no other questions, so I would like to turn the meeting back to you.

Paul Evensen: Well, thank you very much and enjoy the rest of your summer, and we'll enjoy these high oil prices and the chance to do more acquisitions in the future. Thank you.

Operator: Thank you. Ladies and gentlemen, this does conclude your conference call for today. Once again, thank you for participating, and at this time we ask that you please disconnect your lines. Have a great weekend.

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