TEEKAY SHIPPING CORPORATION

Moderator: Peter Evensen
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9:00 a.m. PT

Operator: Ladies and gentleman, thank you for standing by. Welcome to Teekay Offshore third 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 question and answer 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 touchtone phone.

As a reminder, this call is being recorded. Now for opening remarks and introduction, I'd like to turn the call over to Mr. Dave Drummond and afterwards we will hear from Mr. Peter Evensen, Chief Executive Officer of Teekay Offshore GP. Please go ahead, sir.

Dave Drummond: Thank you. Before Mr. Evensen begin, I would like to direct all participants to our website at www.teekayoffshore.com where you will find a copy of the third quarter 2007 earnings presentation. Mr. Evensen will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from those projected by those forward-looking statements as a result of various important factors. Additional information concerning these factors is contained in our earnings release and the earnings release presentation available on our web site.

I'll now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you, Dave. Good morning and thanks for joining us today. With me from Teekay Corporation are Vincent Lok, its CFO and (Bryan Fortier), the Corporate Controller.

If you would turn to slide three of the presentation, I'll review the third quarter highlights. Overall, the results for the third quarter were in line with expectations. We generated 7.3 million of distributable cash flow, a slight decrease from 7.6 million in the second quarter. This decrease is primarily due to the lower shuttle tanker utilization as a result of scheduled seasonal maintenance in the North Sea oil fields which was only partially offset by the acquisition of two shuttle tankers in July 2007.

We increased our quarterly cash distribution by 10 percent to $38.5 per unit representing an annualized distribution of $1.54 per unit and a total cash distribution of $7.7 million. The cash distribution is payable on November 14th to all unit holders of record on November 7th.

In July, Teekay Offshore acquired interest in two shuttle tankers from Teekay Corporation. The partnership acquired the 2000-built Navion Bergen and Teekay's 50 percent ownership in the 2006-built Navion Gothenburg. Together with their 13-year fixed rate charters to a subsidiary of Petrobras.

On October 1st the partnership acquired the Dampier Spirit, a floating storage unit and its associated 7-year fixed-rate contract with Apache Corporation of Australia. This vessel is expected to generate an additional six cents per unit in distributable cash flow annually.

With the acquisition of the Dampier Spirit we intend to recommend to the Board of Directors a four percent increase in our quarterly cash distribution to 40 cents per unit or $1.60 per unit on an annualized basis commencing with the fourth quarter distribution which would be paid in February 2008.

Included – In including this recommended distribution increase, the partnership will appraise its quarterly distributions by 14 percent since its IPO in December of last year. As a reminder, the partnership's primary asset is the 26 percent ownership interest in Teekay Offshore Operating L.P. or OPCO and OPCO's current fleet includes 36 shuttle tankers, four floating storage units and nine Aframax-class conventional crude oil tankers, all of which are on long-termed charter.

It is important to know that the Navion Bergen, the Navion Gothenburg and the Dampier Spirit acquisitions are at the Teekay Offshore level, not inside OPCO and therefore it has a magnified impact on the partnership's cash flows.

Overtime, we expect the Teekay will sell some or all of its 74 percent in OPCO to the partnership which along with other growth opportunities will help us maintain our goal of double digit annual distribution growth.

If we now turn to slide four and review the distributable cash flow and cash distribution for the quarter, we generated 7.3 million of DCF resulting in a coverage ratio of only 0.95 times. A coverage ratio of less than one was expected given that the second and third quarters are seasonally low periods as I'll explain in a minute.

Teekay Corporation 74 percent portion of OPCO's distributable cash flow and the cash flow belonging to our joint venture partner on six of the shuttle tankers, it's also deducted from the partnership's DCF.

Turning next to slide five and reviewing the operating results for our three segments. Overall cash flow from vessel operations or CFVO amounted to 67 million compared to 66 million last quarter.

Our shuttle tanker segment generated CFVO of 40.1 million down from 42.2 million in the second quarter. This decrease in the third quarter is part of a normal seasonal pattern caused by North Sea oil field maintenance which leads to reduce shuttle tanker demand and reduced utilization and as I said before, it was only partially offset by the inclusion of the results of the Navion Bergen and Navion Gothenburg.

As in the previous quarter, we used the quieter third quarter periods to schedule dry dockings for some of our vessels rather than trade them in the conventional tank markets, and that lead to a lower CFVO.

During the past two quarters, we completed a total of eight dry dockings in our shuttle tanker fleet. In the fourth quarter, we only have one scheduled dry docking in our shuttle tanker fleet which should allow us to benefit more from the upcoming higher winter market.

Our conventional tanker segment generates CFVO of 15.1 million, down from 17.2 million in the second quarter. This is – decrease is primarily due to the transfer of the Navion Saga to the floating storage or FSO segment in May of 2007, at which time it commenced its three-year FSO time-chartered contract and associated increase in vessel operating expenses.

Our FSO segment generates CFVO of 12.2 million up from 6.6 million in the second quarter. Two reasons for this, primarily due to a one time $3.5 million dollar fee received in the third quarter relating to the completion of the mobilization hook up of the Navion Saga. And in addition, the Navion Sagas were included in the segment for a full quarter compared to only two months in the previous quarter.

Turning next to slide 6 in reviewing the income statement for the third quarter and comparing it to the last quarter net voyage revenues decreased by 3.2 million from the last quarter due to lower shuttle tanker utilization and the vessels in dry dock and reduced utilization of our fleet in the North Sea as I spoke about earlier.

This decrease in net voyage revenues was only offset by the Navion Bergen and Navion Gothenburg being with us since July along with a one time $3.5 million fee I just discussed.

Vessel operating expenses increased by $1.7 million from the last quarter, primarily due to an increase in crewing cost and maintenance work performed on our fleets during the third quarter. Net interest expense increased by $3.6 million mainly as a result of the additional debt which was related to the acquisitions of the Gothenburg and Navion Bergen.

The foreign exchange loss of 4.4 million is primarily the result of a translation of certain balance sheet items from Norwegian Kroner to U.S. dollars. This amount is unrealized and does not impact our distributable cash flow.

The income tax expense is 6.1 million results from changes to our deferred tax balances which are impacted by fx fluctuations. Again, this amount is a non-cash item and does not impact distributable cash flow.

Turning next to slide 7, we presented our September 30th balance sheet alongside the June 30th balance sheet. As we consolidate 100 percent of OPCO, Teekay Corporation's 74 percent interest in the net assets and liabilities are shown as a non-controlling interest on the balance sheet.

The partnership had a total liquidity of 361 million at the end of the quarter and as a result, we feel the partnership is in a strong position and has the capacity to take advantage of acquisition opportunities.

Looking at business development and future growth, we can see that high oil prices continue to stimulate off-shore development and a much higher level of off-shore activity than we would have thought a year ago. In particular, there is a focus on re-development of older fields in the North Sea and that should be good for our FPSO and shuttle tanker franchises.

So in closing, we're pleased that we're able to recommend to our Board of Directors another 4 percent increase in our cash distribution in the fourth quarter as a result of the Dampier Spirit acquisition which will result in a total annual increase in the cash distributions of 14 percent.

We will continue to execute on our plan to increase the partnerships distributable cash flow both through acquisitions of various offshore units all against long-term contracts and additional interest in OPCO that Teekay Corporation may offer us.

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

Operator: Thank you, ladies and gentlemen if you would like to ask your questions, press star one on your touchtone phone. To withdraw your question, press the pound sign. If you're using a speakerphone, lift your handset before entering your request. Please standby for your first question.

Your first question comes from (Darren Horowitz) of Raymond James. Please go ahead.

(Darren Horowitz): Great, thank you. Peter, my first question is surrounding the shuttle tanker market. When you look at the four Aframax shuttle tankers that are going to be coming along, in terms of how they're going to be contracted, do you have a sense at this point whether or not they're going to be under this new or long-termed fixed contracts or if they would be OPCO's contracts of affreightment?

Peter Evensen: Well, as you know those are coming in 2010, 2011. So there's a little bit of time for those Aframax shuttle new buildings that we have. But as we look at it now, it could actually be either. If we are in Brazil, they prefer to use their boats and therefore, they would be on a longer term contract.

But similarly the contracts, we ((inaudible)) contracts of affreightment particularly if we have redevelopment of oil fields, we would expect that to be under a volume contract. So it really depends upon the region when it comes there. But we anticipate a good – a need for them and in addition, Teekay Corporation has ordered four conventional Suezmax Tankers with some shuttle features.

So if we wanted to convert those, into Suezmax tonnage that would be available to us. But the four Aframax shuttle new buildings, those are purpose built.

(Darren Horowitz): OK. And then my second question relates to the GAAP that you just pointed out between now and 2010 after the two shuttle tankers this quarter and then the Dampier Spirit in October. It doesn't look like you're going to see many more vessels hitting the income statement until that 2010 – 2011 timeframe.

So, could you just, with a bit more detail, give us any other vessel prospects or opportunities that are out there in the marketplace today that could be higher on your priority list?

Peter Evensen: Well, I would look at something that's outside of our control and things that are relatively inside our general partner's control, meaning Teekay Corporation. As you know, Teekay Corporation may offer some of the remaining interest that they own in OPCO to 74 percent.

They also will control at least 50 percent of an FPSO, the FPSO Siri that will be finished in February, 2008 that can come in to the fleet. And then you have – so those are immediate things that you can see that our general partner has control over.

Turning then to look at acquisitions, we think that there will be the opportunity for a third party acquisitions of FPSOs and shuttle tankers with contracts. We don't see that much opportunity for floating storage units with contracts. But our basic message is that we would look to make acquisitions inside of our specialties there in the various offshore units.

So, we were just on the phone together on LNG that gives you a clear roadmap but what's good about Teekay Offshore is it has a multitude of places to look for acquisitions.

(Darren Horowitz): Sure. That's helpful. Thank you, Peter.

Peter Evensen: Thank you.

Operator: Thank you. Your next question comes from (Ron Londe) from Wachovia. Please go ahead.

(Ron Londe): Yes, thanks. It seems like the weakness in the North Sea, the seasonality was possibly a little more pronounced this quarter than we might have expected especially given the two shuttle tankers that came on stream.

Can you give us some insight in the – what happened there or, you know, is that kind of a correct statement? And also, did you see any – because of the high oil prices and the nature of oil markets this summer and currently actually, have you seen more longer hauls to other ports from the North Sea?

Peter Evensen: Yes, hi (Ron). In terms of the North Sea, it actually was more pronounced than what we thought it was going to be but that was caused by two factors. One, we saw a lot of maintenance in the third quarter and so that meant that our ships were not used to shuttle tankers and then we would normally trade them as conventional tankers.

But we took the opportunity to dock them, so we didn't have any conventional tanker revenue to make up for the fact that we didn't have the shuttle tanker revenue and that lead to us having lower cash flow from vessel operations as it came on.

So going forward, if you look at that, we'll have less going forward when we look at it in 2008. This year, we had 12 shuttles and four conventional dry docks in all of 2007 and next year we'll have eight shuttles and one conventional tanker. So it should be better going forward.

Also, next year we'll have the Navion Saga, the floating storage contract for a full-year versus eight months in 2007. When – and so when we then look at your second question which was, did we see some longer hauls? Yes, that's a good point. We actually did see that ((inaudible)) use some of our shuttles and have them go on longer distances both cross Atlantic and down to Europe into the Med. But that didn't make up for the fact that there was less oil that they were producing.

(Ron Londe): OK. Also, can you give us an update of what's going on the Petrojarl?

Peter Evensen: Petrojarl is as I said they're completing the first FPSO, the Siri which is being built in Poland and this is going to come on station in about February or March of next year. Teeka Corporation owns 50 percent of that. Teekay Petrojarl owns the other 50 percent.

We presently – Teekay Corporation presently controls about 65 percent of that and there's one other shareholder who controls the 30 percent portion and there hasn't been any movement on that although we would note that the shareholder that owns the 30 percent portion has announced that they are evaluating strategic alternatives which may include a demerger of their floating production activities. So, that could give us opportunities going forward.

(Ron Londe): OK, very good. Thank you.

Peter Evensen: Thank you (Ron).

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

Your next question comes from (Stephen Williams) of Simmons, please go ahead.

(Stephen Williams): Yes. Hi, just another question on potential growth in the FPSO area. I was hoping you could give anymore color on – aside from the Petrojarl (CK) unit in 2008. Any color on what kind of opportunities you'd be looking out. What sort of scale of vessel on sort of area?

Peter Evensen: Well, our expertise is harsh weather activities. We did bid on the Cascade, Chinook Gulf of Mexico project but we lost that to a competitor. So that was one that I would have to say. We really wanted to get but we were unsuccessful there.

But there is lot of different opportunities – probably the biggest market is down in Brazil, both for oil and gas FPSOs. And – but we also see up in Norway as it relates to the redevelopment of certain fields you should be able to see things.

We aren't really competing on more benign places in French, West Africa because we don't think we have a big competitive advantage there. So we're going for the more complex type of FPSOs projects that we get going forward because we think that's more in our sweet spot.

(Stephen Williams): OK. And then essentially with the Chinook opportunity, can you give us any reason of why you might lose out on that one without ((inaudible)) and that someone else offered a better rate of this to the client? Or was that a technology issue, was the technology a key there or some things?

Peter Evensen: No, we had the same ((inaudible)) technology that they did so we're not quite sure but I would have to guess that it was the usual which is price.

(Stephen Williams): OK, thank you.

Operator: Thank you. There are no further questions at this time. I'd like to turn the conference back to Mr. Evensen.

Peter Evensen: All right thank you very much for listening and I look forward to reporting to you next quarter. Thank you and have a good weekend.

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

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