**TEEKAY OFFSHORE PARTNERS L.P.**
**4th Floor, Belvedere Building, 69 Pitts Bay Road,**
**Hamilton, HM 08, Bermuda**

# EARNINGS RELEASE

## TEEKAY OFFSHORE PARTNERS
## REPORTS FOURTH QUARTER AND ANNUAL RESULTS

**Highlights**

- Generated distributable cash flow[(1)] of $41.6 million in the fourth quarter of 2011, up approximately 55 percent from the same period of the prior year.
- Paid cash distribution of $0.50 per unit for the fourth quarter of 2011.
- Completed acquisitions of the *Piranema Spirit* FPSO unit from Sevan Marine ASA and the *Scott Spirit* shuttle tanker from Teekay Corporation in November and October 2011, respectively.
- Current liquidity of approximately $430 million including proceeds from a Norwegian bond offering completed in January 2012 and a new $130 million debt facility secured by the *Piranema Spirit* FPSO completed in February 2012.

Hamilton, Bermuda, February 23, 2012 - Teekay Offshore GP LLC, the general partner of Teekay Offshore Partners L.P. *(Teekay Offshore* or *the Partnership)* (NYSE: TOO), today reported the Partnership's results for the quarter ended December 31, 2011. During the fourth quarter of 2011, the Partnership generated distributable cash flow[(1)] of $41.6 million, compared to $26.9 million in the same period of the prior year. The increase is mainly related to the Partnership's acquisition from Teekay Corporation (*Teekay*) of the remaining 49 percent interest in Teekay Offshore Operating L.P. (OPCO) in March 2011, the acquisition of the *Cidade de Rio Das Ostras* floating production storage and offloading (*FPSO*) unit in October 2010, the acquisition of three newbuilding shuttle tankers since December 2010 and the acquisition of the *Piranema Spirit* FPSO on November 30, 2011.

On January 19, 2012, a cash distribution of $0.50 per common unit was declared for the quarter ended December 31, 2011. The cash distribution was paid on February 14, 2012, to all unitholders of record on February 1, 2012.

"The Partnership reported another quarter of strong operating results," commented Peter Evensen, Teekay Offshore GP LLC's Chief Executive Officer. "In particular, during the fourth quarter we were successful in reducing our operating expenses despite adding new vessels to our fleet. The completion of the *Piranema Spirit* FPSO acquisition from Sevan Marine and the acquisition of the *Scott Spirit* shuttle tanker from Teekay Corporation will add to the Partnership's large portfolio of fixed-rate cash flows." Mr. Evensen continued, "We have also been successful in further enhancing the Partnership's liquidity through the issuance of another unsecured Norwegian bond offering in January 2012 and the completion of a new debt facility secured by the *Piranema Spirit* FPSO in February 2012. With approximately $430 million of liquidity, the Partnership is well-positioned to take advantage of further growth opportunities that may be presented to us in the near future, including FPSO units which may be offered by our sponsor, Teekay Corporation."

**Summary of Recent Transactions**

In late January 2012, the Partnership issued in the Norwegian bond market NOK 600 million in senior unsecured bonds that mature in January 2017. The aggregate principal amount of the bonds is equivalent to approximately 100 million U.S. dollars (USD) and all interest and principal payments have been swapped into USD and fixed at an interest rate of 7.49%. The proceeds of the bonds have been used to reduce amounts outstanding under the Partnership's revolving credit facilities and for general partnership purposes. The Partnership will apply for listing of the bonds on the Oslo Stock Exchange.

On November 30, 2011, in connection with Teekay's previously-announced transaction to acquire FPSO units from Sevan Marine ASA (*Sevan*), the Partnership completed the acquisition of the *Piranema Spirit* FPSO unit directly from Sevan for $165 million, which was financed through a $170 million equity private placement. The 2007-built *Piranema Spirit* FPSO is

(1) Distributable cash flow is a non-GAAP financial measure used by certain investors to measure the financial performance of the Partnership and other master limited partnerships. Please see *Appendix B* for a reconciliation of distributable cash flow to the most directly comparable financial measure under United States generally accepted accounting principles (*GAAP*).

currently operating under a long-term charter to Petrobras S.A. (*Petrobras*) on the Piranema field located offshore Brazil. The charter includes a firm contract period through March 2018, with up to 11 one-year extension options and includes cost escalation clauses.

On October 1, 2011, the Partnership completed the acquisition from Teekay of another newbuilding shuttle tanker, the *Scott Spirit*, for a cost of $116 million, including $93.3 million of debt which was assumed by Teekay Offshore. The purchase price is subject to adjustment for up to an additional $12 million based upon incremental shuttle tanker revenues secured during the two years following the acquisition.

**Teekay Offshore's Fleet**

The following table summarizes Teekay Offshore's fleet as of February 1, 2012.

| | Number of Vessels | | | |
|---|---|---|---|---|
| | **Owned Vessels** | **Chartered-in Vessels** | **Committed Newbuildings** | **Total** |
| **Shuttle Tanker Segment** | 32(i) | 4 | 4(ii) | 40 |
| **Conventional Tanker Segment** | 10 | - | - | 10 |
| **FSO Segment** | 5 | - | - | 5 |
| **FPSO Segment** | 3 | - | - | 3 |
| **Total** | 50 | 4 | 4 | **58** |

(i) Includes six shuttle tankers in which Teekay Offshore's interest is 50 percent and three shuttle tankers in which Teekay Offshore's ownership is 67 percent.

(ii) Includes four shuttle tanker newbuildings expected to deliver in mid- to late-2013 and commence operations under contracts with a subsidiary of BG Group plc in Brazil.

**Future Growth Opportunities**

Pursuant to an omnibus agreement that Teekay Offshore entered into in connection with its initial public offering in December 2006, Teekay is obligated to offer to the Partnership its interest in certain shuttle tankers, floating storage and offtake (*FSO*) units and FPSO units Teekay owns or may acquire in the future, provided the vessels are servicing contracts with remaining durations of greater than three years. The Partnership may also acquire other vessels that Teekay or third parties may offer it from time to time.

**Shuttle Tankers**

In June 2011, the Partnership entered into a new long-term contract with a subsidiary of BG Group plc to provide shuttle tanker services in Brazil. The contract with BG will be serviced by four Suezmax newbuilding shuttle tankers to be constructed by Samsung Heavy Industries for an estimated total delivered cost of approximately $470 million. Upon their scheduled delivery in mid-to late-2013, the vessels will commence operations under 10-year, fixed-rate time-charter contracts. The contract with BG also includes certain extension options and vessel purchase options.

**FPSO Units**

As previously announced, on November 30, 2011, Teekay acquired from Sevan the *Hummingbird Spirit* FPSO (which is currently operating under a short-term charter contract), and has agreed to acquire the *Voyageur Spirit* FPSO upon the completion of certain upgrades that are currently expected to be completed in the third quarter of 2012. Both FPSO units would be eligible pursuant to the omnibus agreement to be acquired by Teekay Offshore within approximately a year following commencement of charter contracts with a firm period of greater than three years in duration.

Pursuant to the omnibus agreement and a subsequent agreement, Teekay is obligated to offer to sell the *Petrojarl Foinaven* FPSO unit, an existing unit owned by Teekay and operating under a long-term contract in the North Sea, to Teekay Offshore prior to July 9, 2012. The purchase price for the *Petrojarl Foinaven* FPSO unit would be its fair market value plus any additional tax or other costs to Teekay that would be required to transfer the FPSO unit to the Partnership.

In October 2010, Teekay signed a long-term contract with Petrobras to provide a FPSO unit for the Tiro and Sidon fields located in the Santos Basin offshore Brazil. The contract with Petrobras will be serviced by a newly-converted FPSO unit, named *Petrojarl Cidade de Itajai*. This FPSO unit is scheduled to deliver in mid-2012, when it will commence operations under a nine-year, fixed-rate time-charter contract to Petrobras with six additional one-year extension options. Pursuant to the omnibus agreement, Teekay is obligated to offer to the Partnership its 50 percent interest in this FPSO project at Teekay's fully built-up cost, within 365 days after the commencement of the charter with Petrobras.

In May 2011, Teekay entered into a joint venture agreement with Odebrecht Oil & Gas S.A. (a member of the Odebrecht group) to jointly pursue FPSO projects in Brazil. Odebrecht is a well-established Brazil-based company that operates in the engineering and construction, petrochemical, bioenergy, energy, oil and gas, real estate and environmental engineering sectors, with over 120,000 employees and a presence in over 20 countries. As part of the joint venture agreement, Odebrecht is a 50 percent partner in the Tiro Sidon FPSO project and Teekay is currently working with Odebrecht on other FPSO project opportunities which, if awarded, may result in the Partnership being able to acquire Teekay's interests in such projects pursuant to the omnibus agreement.

In June 2011, Teekay entered into a new contract with BG Norge Limited to provide a harsh weather FPSO unit for the Knarr oil and gas field located in the North Sea. The contract will be serviced by a new FPSO unit to be constructed by Samsung Heavy Industries for a fully built-up cost of approximately $1 billion. Pursuant to the omnibus agreement, Teekay is obligated to offer to the Partnership its interest in this FPSO project at Teekay's fully built-up cost, within 365 days after the commencement of the charter, which is expected to commence during the first quarter of 2014.

**Financial Summary**

The Partnership reported adjusted net income attributable to the partners(1) (as detailed in *Appendix A* to this release) of $22.3 million for the quarter ended December 31, 2011, compared to $13.8 million for the same period of the prior year. Adjusted net income attributable to the partners excludes a number of specific items that had the net effect of increasing net loss by $63.5 million and increasing net income by $36.2 million for the quarters ended December 31, 2011 and 2010, respectively, as detailed in *Appendix A*. Including these items, the Partnership reported, on a GAAP basis, net loss attributable to the partners of $41.2 million for the fourth quarter of 2011, compared to net income attributable to the partners of $50.0 million in the same period of the prior year. Net revenues(2) for the fourth quarter of 2011 increased to $205.1 million compared to $203.1 million in the same period of the prior year.

The Partnership reported adjusted net income attributable to the partners(1) (as detailed in *Appendix A* to this release) of $102.2 million for the year ended December 31, 2011, compared to $65.3 million for the prior year. Adjusted net income attributable to the partners excludes a number of specific items that had the net effect of increasing net loss by $206.4 million and decreasing net income by $7.1 million for the year ended December 31, 2011 and 2010, respectively, as detailed in *Appendix A*. Including these items, the Partnership reported, on a GAAP basis, net loss attributable to the partners of $104.3 million for the year ended December 31, 2011 and net income attributable to the partners of $58.2 million for the year ended December 31, 2010. Net revenues(2) for the year ended December 31, 2011 increased to $823.6 million compared to $775.4 million in the same period of the prior year.

Due to the significant reduction in spot conventional tanker rates and asset values during the past several quarters, a change in the operating plans for certain older shuttle tankers, and escalating drydock costs, for accounting purposes, the Partnership recorded non-cash impairment charges of $57.9 million in the fourth quarter of 2011 associated with seven of the Partnership's older vessels. These non-cash charges do not affect the Partnership's operations, cash flows, liquidity or any of the Partnership's loan covenants. The Partnership intends to sell two of its conventional tankers which are currently on time-charter to Teekay, and expects to receive an early termination fee from Teekay upon the sale of the vessels.

For accounting purposes, the Partnership is required to recognize, through the consolidated statements of loss, changes in the fair value of certain derivative instruments as unrealized gains or losses. This revaluation does not affect the economics of any hedging transactions or have any impact on the Partnership's actual cash flows or the calculation of its distributable cash flow.

The Partnership has recast its historical financial results to include the results of the *Falcon Spirit* FSO unit, the *Cidade de Rio das Ostras* (*Rio das Ostras)* FPSO unit and the *Amundsen Spirit* and *Scott Spirit* shuttle tankers relating to the periods prior to their acquisition by the Partnership from Teekay when they were under common control, which pre-acquisition results are referred to in this release as the Dropdown Predecessor. In accordance with GAAP, business acquisitions of

(1) Adjusted net income attributable to the partners is a non-GAAP financial measure. Please refer to *Appendix A* included in this release for a reconciliation of this non-GAAP measure to the most directly comparable financial measure under GAAP and information about specific items affecting net income that are typically excluded by securities analysts in their published estimates of the Partnership's financial results.

(2) Net revenues represents revenues less voyage expenses, which comprise all expenses relating to certain voyages, including bunker fuel expenses, port fees, canal tolls and brokerage commissions. Net revenues is a non-GAAP financial measure used by certain investors to measure the financial performance of shipping companies. Please see the Partnership's web site at www.teekayoffshore.com for a reconciliation of this non-GAAP measure as used in this release to the most directly comparable GAAP financial measure.

entities under common control that have begun operations are required to be accounted for in a manner whereby the Partnership's financial statements are retroactively adjusted to include the historical results of the acquired vessels from the date the vessels were originally under the control of Teekay. For these purposes, the *Falcon Spirit* was under common control by Teekay from December 15, 2009 until April 1, 2010, when it was sold to the Partnership; the *Rio das Ostras* FPSO unit was under common control by Teekay from April 1, 2008 to October 1, 2010, when it was sold to the Partnership; the *Amundsen Spirit* was under common control by Teekay from July 30, 2010 to October 1, 2010, when it was sold to the Partnership; and the *Scott Spirit* was under common control by Teekay from July 22, 2011 to October 1, 2011, when it was sold to the Partnership.

On October 1, 2010, Teekay Offshore agreed to acquire Teekay's interest in the newbuilding shuttle tanker *Peary Spirit*. Prior to its acquisition by the Partnership, this entity was considered a variable interest entity for accounting purposes. As a result, the Partnership's consolidated financial statements include the financial position, operating results and cash flow contribution of the *Peary Spirit* subsequent to October 1, 2010. The *Peary Spirit* was acquired by the Partnership on August 2, 2011.

## Operating Results

The following table highlights certain financial information for Teekay Offshore's four main segments: the Shuttle Tanker segment, the Conventional Tanker segment, the FSO segment, and the FPSO segment (please refer to the "Teekay Offshore's Fleet" section of this release above and *Appendix C* for further details).

| | Three Months Ended December 31, 2011 (unaudited) | | | | |
|---|---|---|---|---|---|
| **(in thousands of U.S. dollars)** | **Shuttle Tanker Segment** | **Conventional Tanker Segment** | **FSO Segment** | **FPSO Segment** (3) | **Total** |
| Net revenues(1) | 122,117 | 21,265 | 14,804 | 46,925 | 205,111 |
| Vessel operating expenses | 37,527 | 5,297 | 6,747 | 19,494 | 69,065 |
| Time-charter hire expense | 17,406 | - | - | - | 17,406 |
| Depreciation and amortization | 29,519 | 5,394 | 2,892 | 10,389 | 48,194 |
| Cash flow from vessel operations(2) | 58,190 | 14,664 | 7,870 | 20,869 | 101,593 |

| | Three Months Ended December 31, 2010 (unaudited) | | | | |
|---|---|---|---|---|---|
| **(in thousands of U.S. dollars)** | **Shuttle Tanker Segment** | **Conventional Tanker Segment** | **FSO Segment** | **FPSO Segment** | **Total** |
| Net revenues(1) | 119,134 | 25,478 | 17,889 | 40,611 | 203,112 |
| Vessel operating expenses | 42,993 | 6,224 | 10,093 | 18,034 | 77,344 |
| Time-charter hire expense | 20,981 | - | - | - | 20,981 |
| Depreciation and amortization | 29,353 | 8,620 | 3,537 | 8,720 | 50,230 |
| Cash flow from vessel operations(2) | 49,392 | 18,125 | 7,394 | 19,490 | 94,401 |

(1) Net revenues represents revenues less voyage expenses, which comprise all expenses relating to certain voyages, including bunker fuel expenses, port fees, canal tolls and brokerage commissions. Net revenues is a non-GAAP financial measure used by certain investors to measure the financial performance of shipping companies. Please see the Partnership's web site at www.teekayoffshore.com for a reconciliation of this non-GAAP measure as used in this release to the most directly comparable GAAP financial measure.

(2) Cash flow from vessel operations represents income from vessel operations before depreciation and amortization expense, write-down of vessels and amortization of deferred gains, includes the realized gains (losses) on the settlement of foreign exchange forward contracts and excludes the cash flow from vessel operations relating to the Partnership's Dropdown Predecessor and adjusting for direct financing leases to a cash basis. Cash flow from vessel operations is a non-GAAP financial measure used by certain investors to measure the financial performance of shipping companies. Please see the Partnership's web site at www.teekayoffshore.com for a reconciliation of this non-GAAP measure as used in this release to the most directly comparable GAAP financial measure.

(3) Net revenues from the *Piranema Spirit* FPSO unit acquired in November 2011 include non-cash revenue of $1.1 million.

**Shuttle Tanker Segment**

Cash flow from vessel operations from the Partnership's Shuttle Tanker segment increased to $58.2 million for the fourth quarter of 2011 compared to $49.4 million for the same period of the prior year, primarily due to a decrease in vessel operating costs, lower time-charter hire expense, and a full quarter's contribution from the *Nansen Spirit* and *Peary Spirit*. Vessel operating costs decreased due to a temporary lay-up of the *Basker Spirit* commencing in the first quarter of 2011 and from unexpected repair costs incurred on certain shuttle tankers in the fourth quarter of 2010.

**Conventional Tanker Segment**

Cash flow from vessel operations from the Partnership's Conventional Tanker segment decreased to $14.7 million in the fourth quarter of 2011 compared to $18.1 million for the same period of the prior year, primarily due to the sale of the *Scotia Spirit* in the third quarter of 2011 and the expiry of time-charter contracts on two of the tankers during the fourth quarter of 2011.

**FSO Segment**

Cash flow from vessel operations from the Partnership's FSO segment increased to $7.9 million in the fourth quarter of 2011 compared to $7.4 million for the same period of the prior year, primarily due to increased revenues from favorable foreign exchange rate differences and lower vessel operating costs, partially offset by the sale of the *Karratha Spirit* FSO unit during the first quarter of 2011.

**FPSO Segment**

Cash flow from vessel operations from the Partnership's FPSO segment increased to $20.9 million for the fourth quarter of 2011 compared to $19.5 million for the same period of the prior year, primarily due to the acquisition of the *Piranema Spirit* FPSO unit on November 30, 2011 and increased revenues from the *Rio das Ostras* and *Petrojarl Varg*. Revenues increased from the *Rio das Ostras* effective April 2011 as provided in its new charter contract servicing the Aruana field. Revenues increased from the *Petrojarl Varg* from favorable foreign exchange rate differences, partially offset by lower oil production.

**Liquidity**

As of December 31, 2011, the Partnership had total liquidity of $202.3 million, which consisted of $179.9 million in cash and cash equivalents and $22.4 million in undrawn revolving credit facilities. Subsequent to December 31, 2011, the Partnership's liquidity balance increased by approximately $230 million due to (a) the NOK 600 million (approximately USD 100 million equivalent) Norwegian bond offering completed in late January 2012 and (b) a new $130 million debt facility secured by the *Piranema Spirit* FPSO completed in late February 2012.

**Conference Call**

The Partnership plans to host a conference call on February 24, 2012 at 12:30 p.m. (ET) to discuss its results for the fourth quarter of 2011. An accompanying investor presentation will be available on Teekay Offshore's website at www.teekayoffshore.com prior to the start of the call. All unitholders and interested parties are invited to listen to the live conference call by choosing from the following options:

- By dialing (866) 322-8032 or (416) 640-3406, if outside North America, and quoting conference ID code 3063466.
- By accessing the webcast, which will be available on Teekay Offshore's website at www.teekayoffshore.com (the archive will remain on the website for a period of 30 days).

The conference call will be recorded and made available until Friday March 2, 2012. This recording can be accessed following the live call by dialing (888) 203-1112 or (647) 436-0148, if outside North America, and entering access code 3063466.

**About Teekay Offshore Partners L.P.**

Teekay Offshore Partners L.P. is an international provider of marine transportation, oil production and storage services to the offshore oil industry focusing on the fast-growing, deepwater offshore oil regions of the North Sea and Brazil. Teekay Offshore owns interests in 40 shuttle tankers (including four chartered-in vessels and four committed newbuildings), three floating production, storage and offloading (FPSO) units, five floating storage and offtake (FSO) units and ten conventional oil tankers. Teekay Offshore has rights to participate in certain other FPSO and shuttle tanker opportunities provided by

Teekay Corporation (NYSE: TK) and Sevan Marine ASA (Oslo Bors: SEVAN). A majority of Teekay Offshore's fleet trades on long-term, stable contracts and it is structured as a publicly-traded master limited partnership.

Teekay Offshore Partners' common units trade on the New York Stock Exchange under the symbol "TOO".

**For Investor Relations enquiries contact:**
Kent Alekson
Tel: +1 (604) 609-6442

Web site: www.teekayoffshore.com

# TEEKAY OFFSHORE PARTNERS L.P.
## SUMMARY CONSOLIDATED STATEMENTS OF (LOSS) INCOME
(in thousands of U.S. dollars, except unit data)

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2011 (unaudited) | September 30, 2011[(1)] (unaudited) | December 31, 2010 (unaudited) | December 31, 2011[(1)] (unaudited) | December 31, 2010[(2)] (unaudited) |
| **REVENUES** | 238,122 | 243,023 | 229,263 | 949,061 | 900,546 |
| **OPERATING EXPENSES** | | | | | |
| Voyage expenses | 33,011 | 34,404 | 26,151 | 125,452 | 125,101 |
| Vessel operating expenses [(3)] | 69,065 | 72,783 | 77,344 | 292,175 | 268,876 |
| Time-charter hire expense | 17,406 | 18,620 | 20,981 | 74,478 | 89,795 |
| Depreciation and amortization | 48,194 | 47,783 | 50,230 | 187,710 | 190,341 |
| General and administrative [(3)] | 18,780 | 17,862 | 13,394 | 73,529 | 63,214 |
| Write-down of vessels | 57,882 | 23,961 | 9,441 | 91,108 | 9,441 |
| Restructuring charge [(4)] | - | - | - | 3,924 | 119 |
| | 244,338 | 215,413 | 197,541 | 848,376 | 746,887 |
| **(Loss) income from vessel operations** | (6,216) | 27,610 | 31,722 | 100,685 | 153,659 |
| **OTHER ITEMS** | | | | | |
| Interest expense | (9,804) | (9,734) | (8,553) | (36,897) | (37,411) |
| Interest income | 199 | 181 | 200 | 659 | 842 |
| Realized and unrealized (loss) gain on derivative instruments [(5)] | (19,179) | (112,685) | 63,863 | (159,744) | (55,666) |
| Foreign exchange gain (loss) [(6)] | 2,247 | (316) | (348) | 1,499 | 911 |
| Income tax (expense) recovery | (4,517) | 3,528 | 1,133 | (6,679) | 9,718 |
| Other income – net | 171 | 966 | 1,296 | 3,606 | 6,810 |
| **Net (loss) income** | (37,099) | (90,450) | 89,313 | (96,871) | 78,863 |
| Net (loss) income attributable to: | | | | | |
| Non-controlling interests | 4,094 | (296) | 39,332 | 22,454 | 37,378 |
| Dropdown Predecessor [(1)(2)] | - | (15,075) | - | (15,075) | (16,685) |
| Partners | (41,193) | (75,079) | 49,981 | (104,250) | 58,170 |
| **Limited partners' units outstanding:** | | | | | |
| Weighted-average number of common units outstanding | | | | | |
| - Basic and diluted | 65,910,343 | 63,459,310 | 50,547,500 | 62,362,072 | 44,278,158 |
| Total units outstanding at end of period | 70,626,554 | 63,513,580 | 55,237,500 | 70,626,554 | 55,237,500 |

(1) Results for the *Scott Spirit* shuttle tanker for the period beginning in July 2011 prior to its acquisition by the Partnership in October 2011 when it was owned and operated by Teekay Corporation, are included in the *Dropdown Predecessor*. The amounts included in this release related to the Dropdown Predecessor are preliminary, and will be finalized for inclusion in the Partnership's Form 20-F filing for the year ended December 31, 2011. Any revisions to the preliminary *Scott Spirit* shuttle tanker Dropdown Predecessor figures are only expected to impact the accounting for periods prior to the date the *Scott Spirit* shuttle tanker was acquired by the Partnership, and therefore will have no effect on the adjusted net income attributable to the partners or distributable cash flow of the Partnership for any period, including the fourth quarter of 2011.

(2) Results for (a) the *Rio das Ostras* FPSO unit for the period beginning in April 2008 prior to its acquisition by the Partnership in October 2010, (b) the *Amundsen Spirit* shuttle tanker for the period beginning in July 2010 prior to its acquisition by the Partnership in October 2010, and (c) for the *Falcon Spirit* FSO unit for the period beginning in December 2009 prior to its acquisition by the Partnership in April 2010, when such vessels were owned and operated by Teekay Corporation, are included in the *Dropdown Predecessor*.

(3) The Partnership has entered into foreign exchange forward contracts, which are economic hedges for certain vessel operating expenses and general and administrative expenses. Certain of these forward contracts have been designated as cash flow hedges pursuant to GAAP. Unrealized (losses) gains arising from hedge ineffectiveness from such forward contracts, including forward contracts relating to the Dropdown Predecessor, are reflected in vessel operating expenses, and general and administrative expenses in the above Summary Consolidated Statements of (Loss) Income as detailed in the table below:

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| Vessel operating expenses | - | (33) | (69) | (300) | (2,819) |
| General and administrative | (96) | (109) | (272) | (6) | (1,416) |

(4) Restructuring charges for the year ended December 31, 2011 were incurred in connection with the sale of an FSO unit and the termination of the charter contract of one of the Partnership's shuttle tankers. Restructuring charges for the year ended December 31, 2010 were incurred in connection with the re-flagging of certain of the Partnership's shuttle tankers.

(5) The realized (losses) gains on derivative instruments relate to the amounts the Partnership actually paid or received to settle such derivative instruments and the unrealized (losses) gains on derivative instruments relate to the change in fair value of such derivative instruments as detailed in the table below:

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2011 | September 30, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| Realized (losses) gains relating to: | | | | | |
| Interest rate swaps | (16,115) | (14,889) | (12,993) | (58,475) | (49,224) |
| Foreign currency forward contract | 1,132 | 1,950 | (384) | 4,704 | (1,029) |
| | (14,983) | (12,939) | (13,377) | (53,771) | (50,253) |
| Unrealized (losses) gains relating to: | | | | | |
| Interest rate swaps | (1,214) | (92,888) | 76,368 | (100,306) | (10,408) |
| Foreign currency forward contracts | (2,982) | (6,858) | 872 | (5,667) | 4,995 |
| | (4,196) | (99,746) | 77,240 | (105,973) | (5,413) |
| Total realized and unrealized (losses) gains on non-designated derivative instruments | (19,179) | (112,685) | 63,863 | (159,744) | (55,666) |

(6) Foreign exchange gain (loss) includes realized gains of $0.7 million and $2.9 million, for the three months and year ended December 31, 2011, respectively, relating to the amounts the Partnership received to settle the Partnership's non-designated cross currency swap that was entered into as an economic hedge in relation to the Partnership's 2010 issuance of NOK 600 million unsecured bonds maturing in 2013. Foreign exchange gain (loss) also includes unrealized losses of ($1.2) million and ($1.6) million for the three months and year ended December 31, 2011, respectively, relating to the change in fair value of such derivative instrument, offset by $1.9 million and $2.6 million in unrealized gains on the revaluation of the NOK bond for the three months and year ended December 31, 2011, respectively.

## TEEKAY OFFSHORE PARTNERS L.P.
## SUMMARY CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

| | As at December 31, 2011[(1)] (unaudited) | As at September 30, 2011[(2)] (unaudited) | As at December 31, 2010 (unaudited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 179,934 | 160,935 | 166,483 |
| Vessels held for sale [(3)] | 19,000 | - | - |
| Other current assets | 148,825 | 140,385 | 142,493 |
| Vessels and equipment | 2,539,949 | 2,365,267 | 2,247,323 |
| Advances on newbuilding contracts | 45,637 | 44,947 | 52,184 |
| Other assets | 62,627 | 56,516 | 78,267 |
| Intangible assets | 21,644 | 23,423 | 28,763 |
| Goodwill | 127,113 | 127,113 | 127,113 |
| **Total Assets** | 3,144,729 | 2,918,586 | 2,842,626 |
| **LIABILITIES AND EQUITY** | | | |
| Accounts payable and accrued liabilities | 99,220 | 95,686 | 101,287 |
| Other current liabilities | 99,624 | 120,159 | 113,183 |
| Current portion of long-term debt | 229,365 | 152,884 | 152,096 |
| Long-term debt | 1,799,711 | 1,865,628 | 1,565,044 |
| Other long-term liabilities | 393,769 | 260,887 | 140,842 |
| Redeemable non-controlling interest | 38,307 | 39,147 | 41,725 |
| Equity: | | | |
| Dropdown predecessor equity | - | (37,097) | - |
| Non-controlling interest | 40,622 | 39,203 | 170,876 |
| Partners' equity | 444,111 | 382,089 | 557,573 |
| **Total Liabilities and Equity** | 3,144,729 | 2,918,586 | 2,842,626 |

(1) The balance sheet at December 31, 2011, includes the fair values of asset acquired and liabilities assumed as a result of the acquisition of the *Piranema Spirit* FPSO unit on November 30, 2011. Certain of these estimates of fair value are preliminary and are subject to further adjustment. Any revisions to the fair values are expected to have no effect on the distributable cash flow of the Partnership for any period.

(2) In accordance with GAAP, the balance sheet at September 30, 2011 includes the Dropdown Predecessor as it relates to the *Scott Spirit* shuttle tanker, which the Partnership acquired on October 1, 2011, to reflect ownership of this asset from the time it began operations when owned by Teekay Corporation on July 22, 2011. The amounts included in this release related to the Dropdown Predecessor are preliminary, and will be finalized for inclusion in the Partnership's Form 20-F filing for the year ended December 31, 2011. Any revisions to the preliminary *Scott Spirit* Dropdown Predecessor figures are expected only to impact the accounting for periods prior to the date the *Scott Spirit* shuttle tanker was acquired by the Partnership, and are expected to have no effect on the adjusted net income attributable to the partners or distributable cash flow of the Partnership for any period, including the fourth quarter of 2011.

(3) In the fourth quarter of 2011, the Partnership approved a plan to sell two of its conventional tankers and concurrently agreed with Teekay Corporation to terminate their existing time-charter-out contracts upon the sale of the vessels in exchange for an early termination fee to be paid to the Partnership. As at December 31, 2011 these vessels were classified as held-for-sale and their carrying value had been written down to fair value, which is equal to their estimated selling prices.

## TEEKAY OFFSHORE PARTNERS L.P.
## SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

| | Year Ended December 31, December 31, 2011 [1] (unaudited) | 2010 [2] (unaudited) |
|---|---|---|
| Cash and cash equivalents provided by (used for) | | |
| **OPERATING ACTIVITIES** | | |
| **Net operating cash flow** | 254,162 | 286,585 |
| **FINANCING ACTIVITIES** | | |
| Proceeds from drawdown of long-term debt | 457,530 | 355,678 |
| Repayments of long-term debt | (110,694) | (90,835) |
| Repayments of long-term debt relating to Dropdown Predecessors | - | (41,909) |
| Prepayments of long-term debt | (125,562) | (568,236) |
| Repayments of joint venture partner advances | (14,500) | - |
| Joint venture partner advances | 14,500 | - |
| Equity contribution from joint venture partner | 3,750 | 633 |
| Purchase of 49% interest in Teekay Offshore Operating L.P. | (386,267) | - |
| Purchase of Piranema Spirit (net of cash acquired) | (161,851) | - |
| Purchase of vessels from Teekay Corporation | (60,683) | (107,051) |
| Contribution from Teekay Corporation relating to *Rio das Ostras* | 2,000 | - |
| Contribution of capital from Teekay Corporation relating to Dropdown Predecessors | 2,305 | 4,313 |
| Proceeds from equity offerings | 420,146 | 419,989 |
| Expenses of equity offerings | (222) | (18,498) |
| Cash distributions paid by the Partnership | (129,323) | (85,077) |
| Cash distributions paid by subsidiaries to non-controlling interests | (36,980) | (77,236) |
| Other | (682) | (3,371) |
| **Net financing cash flow** | (126,533) | (211,600) |
| **INVESTING ACTIVITIES** | | |
| Expenditures for vessels and equipment | (148,796) | (39,759) |
| Proceeds from sale of vessels and equipment | 13,354 | - |
| Investment in direct financing lease assets | 316 | (886) |
| Direct financing lease payments received | 20,948 | 22,736 |
| **Net investing cash flow** | (114,178) | (17,909) |
| Increase in cash and cash equivalents | 13,451 | 57,076 |
| Cash and cash equivalents, beginning of the year | 166,483 | 109,407 |
| **Cash and cash equivalents, end of the year** | 179,934 | 166,483 |

(1) In accordance with GAAP, the Summary Consolidated Statements of Cash Flows for the year ended December 31, 2011 includes the cash flows relating to the *Scott Spirit* shuttle tanker unit, for the period from July 22, 2011 to October 1, 2011, when the vessel was under the common control of Teekay Corporation, but prior to its acquisition by the Partnership.

(2) In accordance with GAAP, the Summary Consolidated Statements of Cash Flows for the year ended December 31, 2010 includes the cash flows relating to: the *Falcon Spirit* FSO unit, for the period from December 15, 2009 to April 1, 2010; the *Rio das Ostras* FPSO unit, for the period from April 1, 2008 to October 1, 2010; and the *Amundsen Spirit* shuttle tanker unit, for the period from July 30, 2010 to October 1, 2010, when the vessels were under the common control of Teekay Corporation, but prior to their acquisition by the Partnership.

## TEEKAY OFFSHORE PARTNERS L.P.
## APPENDIX A – SPECIFIC ITEMS AFFECTING NET (LOSS) INCOME

(in thousands of U.S. dollars)
(unaudited)

Set forth below is a reconciliation of the Partnership's unaudited adjusted net income attributable to the partners, a non-GAAP financial measure, to net (loss) income attributable to the partners as determined in accordance with GAAP. The Partnership believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Partnership's financial performance. The items below are also typically excluded by securities analysts in their published estimates of the Partnership's financial results. Adjusted net income attributable to the partners is intended to provide additional information and should not be considered a substitute for measures of performance prepared in accordance with GAAP.

| | Three Months Ended | | Year Ended | |
|---|---|---|---|---|
| | December 31, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Net (loss) income – GAAP basis | (37,099) | 89,313 | (96,871) | 78,863 |
| Adjustments: | | | | |
| Net income attributable to non-controlling interests | (4,094) | (39,332) | (22,454) | (37,378) |
| Net loss attributable to Dropdown Predecessor | - | - | 15,075 | 16,685 |
| **Net (loss) income attributable to the partners** | **(41,193)** | **49,981** | **(104,250)** | **58,170** |
| Add (subtract) specific items affecting net (loss) income: | | | | |
| Foreign exchange (gains) losses (1) | (1,587) | 546 | 1,382 | (631) |
| Foreign currency exchange losses resulting from hedging ineffectiveness (2) | 96 | 341 | 306 | 4,236 |
| Deferred income tax expense relating to unrealized foreign exchange gains (3) | - | 1,178 | 10,096 | 146 |
| Unrealized losses (gains) on derivative instruments (4) | 4,196 | (77,240) | 93,787 | (1,036) |
| Write-down of vessels (5) | 57,882 | 9,441 | 91,108 | 9,441 |
| Restructuring charges and other (6) | 2,463 | (2,978) | 2,097 | 30 |
| Non-controlling interests' share of items above | 431 | 32,491 | 7,662 | (5,038) |
| Total adjustments | 63,481 | (36,221) | 206,438 | 7,148 |
| **Adjusted net income attributable to the partners** | **22,288** | **13,760** | **102,188** | **65,318** |

(1) Foreign exchange losses primarily relate to the Partnership's revaluation of all foreign currency-denominated monetary assets and liabilities based on the prevailing exchange rate at the end of each reporting period, excluding amounts related to Dropdown Predecessor, and the realized gains relating to the cross currency swap for outstanding Norwegian bonds of the Partnership.

(2) Foreign currency exchange losses resulting from hedging ineffectiveness include the unrealized losses arising from hedge ineffectiveness from foreign exchange forward contracts that are or have been designated as hedges for accounting purposes.

(3) Portion of deferred income tax expense related to unrealized foreign exchange gains and losses. There is no adjustment for this item for the three months ended December 31, 2011, as a full valuation allowance was taken starting in the third quarter of 2011 against the deferred tax recovery.

(4) Reflects the unrealized losses due to changes in the mark-to-market value of interest rate swaps and foreign exchange forward contracts that are not designated as hedges for accounting purposes, excluding unrealized losses of $12.2 million and $6.5 million relating to the Dropdown Predecessors for the years ended December 31, 2011 and 2010, respectively.

(5) Write-down of vessels for the year ended December 31, 2011 relates to the valuation impairment of five older conventional tankers, three older shuttle tankers, and one older FSO unit, which were written down to their estimated fair values. For the year ended December 31, 2010, one older shuttle tanker was written down to its estimated fair value.

(6) Restructuring charges of $3.9 million for the year ended December 31, 2011 were incurred in connection with the sale of an FSO unit and the termination of the charter contract of one of the Partnership's shuttle tankers. Restructuring charges of $0.1 million for the year ended December 31, 2010 were incurred in connection with the re-flagging of certain of the Partnership's vessels. Other items for the year ended December 31, 2011 include ($3.1) million related to the tax recovery on the loss on sale and ($2.1) million related to the cancellation fee received, both associated with the sale of the *Scotia Spirit* in the third quarter of 2011, $1.7 million related to a one-time success fee relating to the purchase of the *Piranema Spirit*, $0.9 million related to a one-time management fee associated with the portion of stock-based compensation grants of Teekay's former Chief Executive Officer that had not yet vested prior to the date of his retirement on March 31, 2011, and $0.8 million related to a fair value adjustment of contingent consideration liability associated with the purchase of the *Scott Spirit*. Other items for the year ended December 31, 2010 include ($0.1) million relating to adjustments to the carrying value of certain capitalized drydocking expenditures and non-recurring adjustments to pension and tax accruals.

## TEEKAY OFFSHORE PARTNERS L.P.
## APPENDIX B – RECONCILIATION OF NON-GAAP FINANCIAL MEASURE

(in thousands of U.S. dollars)

**Description of Non-GAAP Financial Measure – Distributable Cash Flow (*DCF*)**

Distributable cash flow represents net loss adjusted for depreciation and amortization expense, non-controlling interest, non-cash items, distributions relating to equity financing of newbuilding instalments, vessel acquisition costs, estimated maintenance capital expenditures, gains and losses on vessel sales, unrealized gains and losses from derivatives, non-cash income taxes, loss on write-down of vessels and unrealized foreign exchange related items. Maintenance capital expenditures represent those capital expenditures required to maintain over the long-term the operating capacity of, or the revenue generated by, the Partnership's capital assets. Distributable cash flow is a quantitative standard used in the publicly-traded partnership investment community to assist in evaluating a partnership's ability to make quarterly cash distributions. Distributable cash flow is not defined by GAAP and should not be considered as an alternative to net loss or any other indicator of the Partnership's performance required by GAAP. The table below reconciles distributable cash flow to net loss for the quarter.

| | **Three Months Ended December 31, 2011 (unaudited)** |
|---|---|
| Net loss | (37,099) |
| Add (subtract): | |
| Write-down of vessels | 57,882 |
| Depreciation and amortization | 48,194 |
| Unrealized losses on non-designated derivative instruments (1) | 4,196 |
| Foreign exchange and other, net | 2,444 |
| Distributions relating to equity financing of newbuilding instalments | 914 |
| Estimated maintenance capital expenditures | (26,970) |
| Deferred income tax recovery | (541) |
| **Distributable Cash Flow before Non-Controlling Interest** | **49,020** |
| Non-controlling interests' share of DCF | (7,464) |
| **Distributable Cash Flow** | **41,556** |

(1) Derivative instruments include interest rate swaps and foreign exchange forward contracts.

# TEEKAY OFFSHORE PARTNERS L.P.
## APPENDIX C – SUPPLEMENTAL SEGMENT INFORMATION

(in thousands of U.S. dollars)

| | Three Months Ended December 31, 2011 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Shuttle Tanker Segment | Conventional Tanker Segment | FSO Segment | FPSO Segment | Total |
| Net revenues [1] | 122,117 | 21,265 | 14,804 | 46,925 | 205,111 |
| Vessel operating expenses | 37,527 | 5,297 | 6,747 | 19,494 | 69,065 |
| Time-charter hire expense | 17,406 | - | - | - | 17,406 |
| Depreciation and amortization | 29,519 | 5,394 | 2,892 | 10,389 | 48,194 |
| General and administrative | 11,098 | 1,304 | 800 | 5,578 | 18,780 |
| Write-down of vessels | 19,951 | 29,333 | 8,598 | - | 57,882 |
| Income (loss) from vessel operations | 6,616 | (20,063) | (4,233) | 11,464 | (6,216) |

| | Three Months Ended December 31, 2010 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Shuttle Tanker Segment | Conventional Tanker Segment | FSO Segment | FPSO Segment | Total |
| Net revenues[1] | 119,134 | 25,478 | 17,889 | 40,611 | 203,112 |
| Vessel operating expenses | 42,993 | 6,224 | 10,093 | 18,034 | 77,344 |
| Time-charter hire expense | 20,981 | - | - | - | 20,981 |
| Depreciation and amortization | 29,353 | 8,620 | 3,537 | 8,720 | 50,230 |
| General and administrative | 8,217 | 1,129 | 943 | 3,105 | 13,394 |
| Write-down of vessels | 9,441 | - | - | - | 9,441 |
| Income from vessel operations | 8,149 | 9,505 | 3,316 | 10,752 | 31,722 |

(1) Net revenues represents revenues less voyage expenses, which comprise all expenses relating to certain voyages, including bunker fuel expenses, port fees, canal tolls and brokerage commissions. Net revenues is a non-GAAP financial measure used by certain investors to measure the financial performance of shipping companies. Please see the Partnership's web site at www.teekayoffshore.com for a reconciliation of this non-GAAP measure as used in this release to the most directly comparable GAAP financial measure.

## FORWARD LOOKING STATEMENTS

This release contains forward-looking statements (as defined in Section 21E of the Securities Exchange Act of 1934, as amended) which reflect management's current views with respect to certain future events and performance, including statements regarding: the Partnership's future growth prospects, cash flows and distributions to unitholders; the timing of delivery of vessels under construction or conversion; the industry fundamentals for deepwater offshore oil production, storage and transportation; the potential for Teekay to offer additional vessels to the Partnership and the Partnership's acquisition of any such vessels, including the *Petrojarl Foinaven,* the *Petrojarl Cidade de Itajai*, the *Voyageur Spirit*, the *Hummingbird Spirit* and the newbuilding FPSO unit that will service the Knarr field under contract with BG Norge Limited; and the potential for the Partnership to acquire other vessels or offshore projects from Teekay or third parties. The following factors are among those that could cause actual results to differ materially from the forward-looking statements, which involve risks and uncertainties, and that should be considered in evaluating any such statement: vessel operations and oil production volumes; significant changes in oil prices; variations in expected levels of field maintenance; increased operating expenses; variability in shuttle tanker tonnage requirements under the Statoil master agreement; different-than-expected levels of oil production in the North Sea and Brazil offshore fields; potential early termination of contracts, including the *Rio das Ostras* FPSO time-charter contract and the Statoil master agreement; failure of Teekay to offer to the Partnership additional vessels; the inability of the joint venture between Teekay and Odebrecht to secure new Brazil FPSO projects that may be offered for sale to the Partnership; failure to obtain required approvals by the Conflicts Committee of Teekay Offshore's general partner to acquire other vessels or offshore projects from Teekay or third parties; the Partnership's ability to raise financing to purchase additional assets; and other factors discussed in Teekay Offshore's filings from time to time with the SEC, including its Report on Form 20-F for the fiscal year ended December 31, 2010. The Partnership 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 Partnership's expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.



**- end -**