



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

EARNINGS RELEASE

TEEKAY OFFSHORE PARTNERS REPORTS THIRD QUARTER RESULTS

Highlights

- Generated distributable cash flow of \$20.8 million in the third quarter of 2010.
- Declared cash distribution of \$0.475 per unit for the third quarter of 2010.
- In August 2010, signed new shuttle tanker Master Agreement with Statoil ASA.
- In October 2010, acquired one FPSO unit and one newbuilding shuttle tanker for total cost of \$286 million; agreed to acquire two additional newbuilding shuttle tankers for approximately \$260 million for delivery in January and July 2011.

Hamilton, Bermuda, November 4, 2010 - Teekay Offshore GP L.L.C., 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 September 30, 2010. During the third quarter of 2010, the Partnership generated distributable cash flow⁽¹⁾ of \$20.8 million, compared to \$28.1 million in the quarter ended June 30, 2010, primarily as a result of seasonal factors associated with the scheduled maintenance of North Sea oil fields during the summer months.

On October 25, 2010, the Partnership declared a cash distribution of \$0.475 per unit for the quarter ended September 30, 2010. The cash distribution will be paid on November 12, 2010, to all unitholders of record on November 5, 2010.

Acquisition of FPSO and Shuttle Tankers

On October 18, 2010, the Partnership announced that it had completed the acquisition of the Cidade de Rio das Ostras (*Rio das Ostras*) floating production storage and offloading (*FPSO*) unit from Teekay Corporation (*Teekay*), which is on a long-term charter with Petroleo Brasileiro SA (*Petrobras*), for a purchase price of approximately \$158 million. In addition, Teekay Offshore announced that its 51 percent-owned subsidiary, Teekay Offshore Operating L.P. (*OPCO*), had acquired a newbuilding shuttle tanker, the *Amundsen Spirit*, from Teekay for approximately \$128 million and had agreed to acquire two additional newbuilding shuttle tankers, the *Nansen Spirit* and the *Peary Spirit*, from Teekay for a total purchase price of approximately \$260 million. The acquisitions of the two newbuilding shuttle tankers are expected to coincide with the commencement of their time-charter contracts under a Master Agreement with Statoil in January 2011 and July 2011, respectively. The Partnership financed the acquisition of the *Rio das Ostras* FPSO unit and the *Amundsen Spirit* newbuilding shuttle tanker through the assumption of \$187 million of debt secured by these assets, with the remainder of the purchase price financed from available capacity under the Partnership's revolving credit facilities.

These transactions are expected to increase the Partnership's cash flow from vessel operations⁽²⁾ by approximately \$60 million in 2011, and distributable cash flow⁽¹⁾, which includes only 51 percent of OPCO's cash flow, by approximately \$20 million in 2011.

"As expected, the Partnership's cash flow declined in the third quarter primarily due to the scheduled seasonal maintenance of the North Sea oil fields, which typically occur during the summer months, and the concurrent planned maintenance shutdown of the *Petrojarl Varg* FPSO unit" commented Peter Evensen, Chief Executive Officer of Teekay Offshore GP

- (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 U.S. generally accepted accounting principles (*GAAP*).
- (2) Cash flow from vessel operations represents income from vessel operations before depreciation and amortization expense and amortization of deferred gains, includes the realized gains (losses) on the settlements foreign exchange forward contracts and excludes the cash flow from vessel operations relating to the Dropdown Predecessor (defined in this release under "Financial Summary") 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

L.L.C. “With the completion of the North Sea field maintenance, our shuttle tanker fleet and our *Petrojarl Varg* FPSO unit have returned to normal production levels in the fourth quarter. In addition, the recently signed Master Agreement with Statoil, initially for seven shuttle tankers, which replaces volume-dependent contracts of affreightment with fixed-rate, time-charter contracts effective September 1, 2010, should reduce the seasonal variability in the Partnership’s cash flows going forward.”

Mr. Evensen continued, “Teekay Offshore’s FPSO and shuttle tanker businesses have experienced several exciting developments during the past three months. The accretive acquisition of the *Rio das Ostras* FPSO unit, located in the opportunity-rich Brazil offshore market, provides us with a second FPSO unit and compliments our fleet of 13 shuttle tankers operating in Brazil. In addition, we acquired the first of three shuttle tanker newbuildings, all of which will operate under the new Master Agreement with Statoil.”

Teekay Offshore’s Fleet

The following table summarizes Teekay Offshore’s fleet as of November 1, 2010, including vessels owned by OPCO, of which the Partnership owns a 51 percent interest:

| | Number of Vessels | | |
|---------------------------------------|-------------------|----------------------|-----------|
| | Owned Vessels | Chartered-in Vessels | Total |
| Shuttle Tanker Segment | 29* | 6 | 35 |
| Committed Shuttle Tanker Newbuildings | 2 | - | 2 |
| Conventional Tanker Segment | 11 | - | 11 |
| FSO Segment | 6 | - | 6 |
| FPSO Segment | 2 | - | 2 |
| Total | 50 | 6 | 56 |

* Includes five shuttle tankers in which OPCO’s ownership interest is 50 percent, three shuttle tankers in which OPCO’s ownership is 67 percent and one shuttle tanker in which Teekay Offshore’s direct ownership interest is 50 percent.

OPCO’s fleet includes 33 shuttle tankers, including six chartered-in vessels, 4 FSO units, and 11 conventional oil tankers.

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, FSO units, FPSO units and joint ventures it may acquire in the future, provided the vessels are servicing contracts in excess of three years in length. Teekay Offshore also may acquire additional limited partner interests in OPCO or other vessels that Teekay may offer the Partnership from time to time in the future. Teekay currently owns 49 percent of OPCO and Teekay Offshore owns the remaining 51 percent, including the general partner interest.

Shuttle Tankers

As described above, OPCO recently acquired one Aframax shuttle tanker newbuilding (the *Amundsen Spirit*) and has committed to acquire two additional Aframax shuttle tanker newbuildings (the *Nansen Spirit* and the *Peary Spirit*) that are scheduled to deliver to OPCO in January and July 2011. Teekay is obligated to offer to sell to the Partnership its interest in a fourth shuttle tanker newbuilding within 365 days after its delivery, provided the vessel is servicing a charter contract in excess of three years in length.

FPSO Units

Pursuant to the omnibus agreement and a subsequent agreement, Teekay is obligated to offer to sell the *Petrojarl Foinaven* FPSO unit, an existing FPSO unit of Teekay 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 at its fair market value plus any additional tax or other similar costs to Teekay that would be required to transfer the FPSO unit to the Partnership.

On October 19, 2010, Teekay announced that it had signed a 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 new converted FPSO unit, to be named the *Petrojarl Cidade de Itajai*, which is currently under conversion from an existing Aframax tanker at Sembcorp Marine's Jurong Shipyard in Singapore for a total estimated cost of approximately \$370 million. The new FPSO unit is scheduled to deliver in the second quarter of 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 interest in this FPSO project at Teekay's fully built-up cost, within 365 days after the commencement of the charter to Petrobras.

Financial Summary

The Partnership reported adjusted net income attributable to the partners⁽¹⁾ (as detailed in *Appendix A* to this release) of \$12.9 million for the quarter ended September 30, 2010, compared to \$18.9 million for the quarter ended June 30, 2010. Adjusted net income attributable to the partners excludes a number of specific items that had the net effect of decreasing net income by \$16.8 million and \$21.7 million for the quarters ended September 30, 2010 and June 30, 2010, respectively, as detailed in *Appendix A*. Including these items, the Partnership reported, on a GAAP basis, net loss attributable to the partners of \$3.9 million (as detailed in *Appendix A* to this release) for the third quarter of 2010, compared to net loss of \$2.8 million in the previous quarter. Net revenues⁽²⁾ for the third quarter of 2010 were \$172.7 million compared to \$181.0 million in the previous quarter.

For accounting purposes, the Partnership is required to recognize, through the consolidated statements of (loss) income, 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 and *Petrojarl Varg* FPSO unit relating to the periods prior to their acquisition by the Partnership from Teekay, and for which pre-acquisition results are referred to in this release as the Dropdown Predecessor. In accordance with GAAP, business acquisitions of 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, and the *Petrojarl Varg* FPSO unit was under common control by Teekay from October 1, 2006 to September 10, 2009, when it was sold to the Partnership.

- (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.

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).

| (in thousands of U.S. dollars) | <u>Three Months Ended</u> <u>September 30, 2010</u> <u>(unaudited)</u> | | | | |
|---|--|------------------------------------|--------------------|---------------------|--------------|
| | Shuttle Tanker Segment | Conventional Tanker Segment | FSO Segment | FPSO Segment | Total |
| Net revenues | 110,068 | 22,116 | 16,777 | 23,726 | 172,687 |
| Vessel operating expenses | 33,442 | 6,144 | 8,296 | 13,223 | 61,105 |
| Time-charter hire expense | 20,352 | - | - | - | 20,352 |
| Depreciation and amortization | 26,786 | 7,239 | 3,479 | 5,119 | 42,623 |
| Cash flow from vessel operations ⁽¹⁾ | 45,636 | 14,932 | 8,161 | 9,162 | 77,891 |

| (in thousands of U.S. dollars) | <u>Three Months Ended</u> <u>June 30, 2010</u> <u>(unaudited)</u> | | | | |
|---|---|------------------------------------|----------------------------------|---------------------|--------------|
| | Shuttle Tanker Segment | Conventional Tanker Segment | FSO Segment⁽²⁾ | FPSO Segment | Total |
| Net revenues | 114,264 | 21,589 | 18,343 | 26,815 | 181,011 |
| Vessel operating expenses | 32,346 | 5,657 | 8,420 | 10,190 | 56,613 |
| Time-charter hire expense | 23,424 | - | - | - | 23,424 |
| Depreciation and amortization | 29,280 | 5,921 | 3,829 | 5,121 | 44,151 |
| Cash flow from vessel operations ⁽¹⁾ | 49,343 | 14,793 | 9,404 | 15,513 | 89,053 |

(1) Cash flow from vessel operations represents income from vessel operations before depreciation and amortization expense and amortization of deferred gains, includes the realized gains (losses) on the settlements foreign exchange forward contracts and excludes the cash flow from vessel operations relating to the 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.

(2) Cash flow from vessel operations for the FSO segment reflects only the cash flow generated by the *Falcon Spirit* FSO unit subsequent to its acquisition by the Partnership on April 1, 2010. Results for the *Falcon Spirit* FSO unit for the periods prior to its acquisition by the Partnership when it was owned and operated by Teekay are included in the *Dropdown Predecessor*.

Shuttle Tanker Segment

Cash flow from vessel operations from the Partnership's shuttle tanker segment decreased to \$45.6 million for the third quarter of 2010, compared to \$49.3 million for the second quarter of 2010, primarily due to reduced revenues as a result of reduced oil production in the North Sea due to seasonal oil field maintenance.

Conventional Tanker Segment

Cash flow from vessel operations from the Partnership's conventional tanker segment of \$14.9 million in the third quarter of 2010 was consistent with the \$14.8 million generated in the second quarter of 2010.

FSO Segment

Cash flow from vessel operations from the Partnership's FSO segment decreased to \$8.2 million in the third quarter of 2010 from \$9.4 million in the second quarter of 2010, primarily due to a contractual reduction in the charter rate on the *Navion Saga* FSO unit effective May 1, 2010.

FPSO Segment

Cash flow from vessel operations from the Partnership's FPSO segment decreased to \$9.2 million for the third quarter of 2010, compared to \$15.5 million for the second quarter of 2010, primarily due to a planned maintenance shutdown of the *Petrojarl Varg* FPSO unit during the third quarter, resulting in lower production tariff revenue and higher vessel operating expenses.

Liquidity

As of September 30, 2010, the Partnership had total liquidity of \$448.0 million, which consisted of \$158.5 million in cash and cash equivalents and \$289.5 million in undrawn revolving credit facilities. Total liquidity increased from \$246.1 million as at June 30, 2010, primarily as a result of the Partnership's follow-on equity offering completed in August 2010, which provided net proceeds to the Partnership of \$130.4 million, cash flow from operations and an increase in the completion of a new \$32 million debt facility secured by the *Falcon Spirit* FSO in September 2010.

About Teekay Offshore Partners L.P.

Teekay Offshore Partners L.P., a publicly-traded master limited partnership formed by Teekay Corporation (NYSE: TK), is an international provider of marine transportation, oil production and storage services to the offshore oil industry. Teekay Offshore owns a 51 percent interest in and controls Teekay Offshore Operating L.P., a Marshall Islands limited partnership with a fleet of thirty-three shuttle tankers, including two newbuildings to be acquired, six chartered-in vessels, four FSO units, and eleven conventional oil tankers. In addition, Teekay Offshore has direct ownership interests in two shuttle tankers, two FSO units, and two FPSO units. Teekay Offshore also has rights to participate in certain other FPSO and shuttle tanker opportunities.

Teekay Offshore's 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)

| | <u>Three Months Ended</u> | | | <u>Nine Months Ended</u> | |
|---|---------------------------|------------------------------------|---------------------------|---------------------------|---------------------------|
| | <u>September 30,</u> | | <u>September 30,</u> | <u>September 30,</u> | <u>September 30,</u> |
| | <u>2010</u> | <u>June 30, 2010⁽¹⁾</u> | <u>2009⁽²⁾</u> | <u>2010⁽¹⁾</u> | <u>2009⁽²⁾</u> |
| | <u>(unaudited)</u> | <u>(unaudited)</u> | <u>(unaudited)</u> | <u>(unaudited)</u> | <u>(unaudited)</u> |
| REVENUES | 200,379 | 215,960 | 204,509 | 637,769 | 608,460 |
| OPERATING EXPENSES | | | | | |
| Voyage expenses | 27,692 | 34,949 | 29,363 | 97,595 | 76,405 |
| Vessel operating expenses ⁽³⁾ | 61,105 | 56,613 | 55,837 | 176,126 | 174,766 |
| Time-charter hire expense | 20,352 | 23,424 | 27,772 | 68,814 | 89,061 |
| Depreciation and amortization | 42,623 | 44,151 | 40,981 | 128,009 | 121,366 |
| General and administrative ⁽³⁾ | 14,450 | 14,879 | 12,840 | 44,138 | 38,993 |
| Restructuring charge ⁽⁴⁾ | - | - | 371 | 119 | 4,053 |
| | 166,222 | 174,016 | 167,164 | 514,801 | 504,644 |
| Income from vessel operations | 34,157 | 41,944 | 37,345 | 122,968 | 103,816 |
| OTHER ITEMS | | | | | |
| Interest expense | (7,308) | (7,318) | (9,147) | (22,959) | (33,532) |
| Interest income | 235 | 235 | 141 | 633 | 1,098 |
| Realized and unrealized (loss) gain on derivative instruments ⁽⁵⁾ | (30,769) | (56,036) | (37,302) | (108,929) | 37,716 |
| Foreign exchange gain (loss) ⁽³⁾ | 1,737 | (1,200) | (4,359) | 1,173 | (7,988) |
| Income tax (expense) recovery | (8,779) | 10,378 | (20,234) | 8,686 | (26,928) |
| Other income – net | 1,636 | 1,590 | 2,068 | 5,580 | 7,055 |
| Net (loss) income | (9,091) | (10,407) | (31,488) | 7,152 | 81,237 |
| Net (loss) income attributable to: | | | | | |
| Non-controlling interests | (5,231) | (7,572) | (12,560) | (1,954) | 32,831 |
| Dropdown Predecessor ⁽¹⁾⁽²⁾ | - | - | (5,551) | 921 | 11,378 |
| Partners | (3,860) | (2,835) | (13,377) | 8,185 | 37,028 |
| Limited partners' units outstanding: | | | | | |
| Weighted-average number of common units outstanding | | | | | |
| - Basic and diluted | 45,450,625 | 42,760,000 | 25,056,250 | 42,165,412 | 21,985,714 |
| Weighted-average number of subordinated units outstanding | | | | | |
| - Basic and diluted | - | - | 9,800,000 | - | 9,800,000 |
| Weighted-average number of total units outstanding | | | | | |
| - Basic and diluted | 45,450,625 | 42,760,000 | 34,856,250 | 42,165,412 | 31,785,714 |
| Total common units outstanding at end of period | 48,797,500 | 42,760,000 | 37,700,000 | 48,797,500 | 37,700,000 |

- (1) Results for the *Falcon Spirit* FSO unit for the periods prior to its acquisition by the Partnership in April 2010 when it was owned and operated by Teekay Corporation, are included in the *Dropdown Predecessor*.
- (2) Results for the *Petrojarl Varg* FPSO unit for the periods prior to its acquisition by the Partnership in September 2009 when it was 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 gains (losses) 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:

| | <u>Three Months Ended</u> | | | <u>Nine Months Ended</u> | |
|----------------------------|-------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | <u>September 30,</u> <u>2010</u> | <u>June 30,</u> <u>2010</u> | <u>September 30,</u> <u>2009</u> | <u>September 30,</u> <u>2010</u> | <u>September 30,</u> <u>2009</u> |
| Vessel operating expenses | (428) | (1,198) | 1,404 | (2,750) | 2,871 |
| General and administrative | 444 | (854) | 1,382 | (1,145) | 3,484 |

- (4) Restructuring charges were incurred in connection with the re-flagging of certain of the Partnership's vessels, which are expected to result in lower future crewing costs.
- (5) The realized losses relate to the amounts the Partnership actually paid or received to settle such derivative instruments and the unrealized (losses) gains relate to the change in fair value of such derivative instruments as detailed in the table below:

| | <u>Three Months Ended</u> | | | <u>Nine Months Ended</u> | |
|---|-------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | <u>September 30,</u> <u>2010</u> | <u>June 30,</u> <u>2010</u> | <u>September 30,</u> <u>2009</u> | <u>September 30,</u> <u>2010</u> | <u>September 30,</u> <u>2009</u> |
| Realized losses relating to: | | | | | |
| Interest rate swaps | (10,327) | (10,934) | (12,743) | (32,080) | (34,621) |
| Foreign currency forward contract | (150) | (340) | (93) | (645) | (4,071) |
| | <u>(10,477)</u> | <u>(11,274)</u> | <u>(12,836)</u> | <u>(32,725)</u> | <u>(38,692)</u> |
| Unrealized (losses) gains relating to: | | | | | |
| Interest rate swaps | (28,275) | (41,486) | (24,942) | (80,327) | 71,538 |
| Foreign currency forward contracts | 7,983 | (3,276) | 476 | 4,123 | 4,870 |
| | <u>(20,292)</u> | <u>(44,762)</u> | <u>(24,466)</u> | <u>(76,204)</u> | <u>76,408</u> |
| Total realized and unrealized (losses) gains on non-designated derivative instruments | <u>(30,769)</u> | <u>(56,036)</u> | <u>(37,302)</u> | <u>(108,929)</u> | <u>37,716</u> |

TEEKAY OFFSHORE PARTNERS L.P.
SUMMARY CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)

| | <u>As at</u> <u>September 30, 2010</u> <u>(unaudited)</u> | <u>As at</u> <u>June 30, 2010</u> <u>(unaudited)</u> | <u>As at</u> <u>December 31, 2009</u> ⁽¹⁾ <u>(unaudited)</u> |
|---|---|--|---|
| ASSETS | | | |
| Cash and cash equivalents | 158,466 | 101,953 | 101,747 |
| Other current assets | 111,268 | 146,238 | 149,659 |
| Vessels and equipment | 1,851,239 | 1,885,335 | 1,917,248 |
| Other assets | 76,932 | 87,649 | 94,845 |
| Intangible assets | 30,793 | 32,826 | 36,885 |
| Goodwill | 127,113 | 127,113 | 127,113 |
| Total Assets | 2,355,811 | 2,381,114 | 2,427,497 |
| LIABILITIES AND EQUITY | | | |
| Accounts payable and accrued liabilities | 82,182 | 75,786 | 74,514 |
| Other current liabilities | 34,717 | 46,294 | 40,220 |
| Current portion of long-term debt | 152,562 | 161,228 | 153,004 |
| Current portion of derivative instruments | 32,153 | 36,268 | 31,852 |
| Long-term debt | 1,339,981 | 1,461,590 | 1,627,455 |
| Other long-term liabilities | 136,813 | 114,299 | 73,247 |
| Redeemable non-controlling interest | 43,330 | 42,676 | - |
| Equity: | | | |
| Non-controlling interest | 156,632 | 174,691 | 219,692 |
| Partners' equity | 377,441 | 268,282 | 207,513 |
| Total Liabilities and Equity | 2,355,811 | 2,381,114 | 2,427,497 |

- (1) In accordance with GAAP, the balance sheet at December 31, 2009 includes the Dropdown Predecessor as it relates to the *Falcon Spirit* FSO unit, which was acquired by the Partnership on April 1, 2010, to reflect ownership of the vessel from the time it began operations as an FSO unit when owned by Teekay Corporation on December 15, 2009.

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

| | <u>Nine Months Ended</u> | |
|--|----------------------------|----------------------------|
| | <u>September 30,</u> | |
| | <u>2010</u> ⁽¹⁾ | <u>2009</u> ⁽²⁾ |
| | (unaudited) | (unaudited) |
| Cash and cash equivalents provided by (used for) | | |
| OPERATING ACTIVITIES | | |
| Net operating cash flow | 225,528 | 140,606 |
| FINANCING ACTIVITIES | | |
| Proceeds from drawdown of long-term debt | 119,400 | 119,575 |
| Scheduled repayments of long-term debt | (53,236) | (24,124) |
| Prepayments of long-term debt | (309,235) | (241,090) |
| Prepayments of long-term debt relating to Dropdown Predecessor <i>Falcon Spirit</i> | (33,634) | - |
| Distribution to Teekay Corporation for the acquisition of <i>Falcon Spirit</i> | (10,495) | - |
| Prepayments of joint venture partner advances | - | (20,775) |
| Joint venture partner advances | - | 474 |
| Equity contribution from joint venture partner | 233 | 4,772 |
| Proceeds from equity offerings | 237,041 | 109,227 |
| Expenses from equity offerings | (11,117) | (4,945) |
| Contribution of capital from Teekay Corporation to Dropdown Predecessor relating to <i>Petrojarl Varg</i> | - | 110,386 |
| Purchase of <i>Petrojarl Varg</i> from Teekay Corporation | - | (100,000) |
| Equity contribution from Teekay Corporation to Dropdown Predecessor relating to <i>Falcon Spirit</i> | 805 | - |
| Cash distributions paid by the Partnership | (60,579) | (42,788) |
| Cash distributions paid by subsidiaries to non-controlling interest | (58,969) | (44,093) |
| Other | (1,025) | (1,114) |
| Net financing cash flow | (180,811) | (134,495) |
| INVESTING ACTIVITIES | | |
| Expenditures for vessels and equipment | (4,292) | (11,726) |
| Investment in direct financing lease assets | (887) | - |
| Direct financing lease payments received | 17,181 | 17,013 |
| Net investing cash flow | 12,002 | 5,287 |
| Increase in cash and cash equivalents | 56,719 | 11,398 |
| Cash and cash equivalents, beginning of the period | 101,747 | 132,348 |
| Cash and cash equivalents, end of the period | 158,466 | 143,746 |

- (1) In accordance with GAAP, the Summary Consolidated Statements of Cash Flows includes the cash flows relating to the *Falcon Spirit* FSO unit, for the period from December 15, 2009 to April 1, 2010, 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 includes the cash flows relating to the *Petrojarl Varg* FPSO unit, for the period from October 1, 2006 to September 10, 2009, when the vessel was under the common control of Teekay Corporation, but prior to its acquisition by the Partnership.

TEEKAY OFFSHORE PARTNERS L.P.
APPENDIX A – SPECIFIC ITEMS AFFECTING NET LOSS

(in thousands of U.S. dollars)

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 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 | |
|--|--|-------------------------------------|
| | September 30, 2010 (unaudited) | June 30, 2010 (unaudited) |
| Net loss – GAAP basis | (9,091) | (10,407) |
| Adjustments: | | |
| Net loss attributable to non-controlling interests | 5,231 | 7,572 |
| Net loss attributable to the partners | (3,860) | (2,835) |
| Add (subtract) specific items affecting net income: | | |
| Foreign exchange (gains) loss ⁽¹⁾ | (1,737) | 1,200 |
| Foreign currency exchange (gains) losses resulting from hedging ineffectiveness ⁽²⁾ | (16) | 2,052 |
| Deferred income tax expense (recovery) relating to unrealized foreign exchange gains and losses ⁽³⁾ | 13,174 | (10,997) |
| Unrealized losses on derivative instruments ⁽⁴⁾ | 20,292 | 44,762 |
| Other ⁽⁵⁾ | - | 3,634 |
| Non-controlling interests' share of items above | (14,956) | (18,924) |
| Total adjustments | 16,757 | 21,727 |
| Adjusted net income attributable to the partners | 12,897 | 18,892 |

- (1) Foreign exchange gains 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.
- (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) recovery related to unrealized foreign exchange gains and losses.
- (4) Reflects the unrealized loss due to changes in the mark-to-market value of derivative instruments that are not designated as hedges for accounting purposes.
- (5) Primarily relates to adjustments to the carrying value of certain capitalized drydocking expenditures and non-recurring adjustments to 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) income adjusted for depreciation and amortization expense, non-controlling interest, non-cash items, estimated maintenance capital expenditures, gains and losses on vessel sales, unrealized gains and losses from derivatives, non-cash income taxes, 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 income 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.

| | <u>Three Months Ended</u> <u>September 30, 2010</u> (unaudited) |
|--|--|
| Net loss | (9,091) |
| Add: | |
| Depreciation and amortization | 42,623 |
| Unrealized losses on non-designated derivative instruments | 20,292 |
| Deferred income tax expense | 8,405 |
| Less: | |
| Estimated maintenance capital expenditures | 23,242 |
| Foreign exchange and other, net | 345 |
| Distributable Cash Flow before Non-Controlling Interest | 38,642 |
| Non-controlling interests' share of DCF | (17,862) |
| Distributable Cash Flow | 20,780 |

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

(in thousands of U.S. dollars)

| | Three Months Ended September 30, 2010 | | | | Total |
|-------------------------------|--|--|------------------------|-------------------------|--------------|
| | (unaudited) | | | | |
| | Shuttle Tanker Segment | Conventional Tanker Segment | FSO Segment | FPSO Segment | |
| Net revenues ⁽¹⁾ | 110,068 | 22,116 | 16,777 | 23,726 | 172,687 |
| Vessel operating expenses | 33,442 | 6,144 | 8,296 | 13,223 | 61,105 |
| Time-charter hire expense | 20,352 | - | - | - | 20,352 |
| Depreciation and amortization | 26,786 | 7,239 | 3,479 | 5,119 | 42,623 |
| General and administrative | 11,212 | 1,040 | 837 | 1,361 | 14,450 |
| Income from vessel operations | 18,276 | 7,693 | 4,165 | 4,023 | 34,157 |

| | Three Months Ended June 30, 2010 | | | | Total |
|-------------------------------|---|--|--------------------------------------|-------------------------|--------------|
| | (unaudited) | | | | |
| | Shuttle Tanker Segment | Conventional Tanker Segment | FSO Segment⁽²⁾ | FPSO Segment | |
| Net revenues ⁽¹⁾ | 114,264 | 21,589 | 18,343 | 26,815 | 181,011 |
| Vessel operating expenses | 32,346 | 5,657 | 8,420 | 10,190 | 56,613 |
| Time-charter hire expense | 23,424 | - | - | - | 23,424 |
| Depreciation and amortization | 29,280 | 5,921 | 3,829 | 5,121 | 44,151 |
| General and administrative | 11,603 | 1,139 | 1,009 | 1,128 | 14,879 |
| Income from vessel operations | 17,611 | 8,872 | 5,085 | 10,376 | 41,944 |

- (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) Income from operations for the *Falcon Spirit* FSO unit for the periods prior to its April 1, 2010 acquisition by the Partnership when it was owned and operated by Teekay Corporation, are required by GAAP to be included in Teekay Offshore's results for such prior periods.

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 expected reduction in the seasonal variability of the Partnership's future cash flows resulting from the new Master Agreement with Statoil; shuttle tanker and FPSO unit production in the North Sea during the fourth quarter of 2010; the effect of the acquisition of the *Rio das Ostras* FPSO unit and three newbuilding shuttle tankers (the *Amundsen Spirit*, the *Nansen Spirit* and the *Peary Spirit*) on the Partnership's future results and in particular, the estimated increase to the Partnership's 2011 cash flow from vessel operations and distributable cash flow; the purchase price and the timing of delivery and commencement of time-charter contracts for the *Nansen Spirit* and the *Peary Spirit*; the potential for Teekay to offer additional vessels to the Partnership and the Partnership's acquisition of any such vessels, particularly the *Petrojarl Foinaven* FPSO unit, the *Petrojarl Cidade de Itajai* FPSO unit and the fourth newbuilding Aframax shuttle tanker; the potential for Teekay to offer to the Partnership additional limited partner interests in OPCO; and the potential acquisition of other new offshore projects. 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; different levels of field maintenance than expected; 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 offshore fields where the *Amundsen Spirit*, *Nansen Spirit* and *Peary Spirit* operate; potential delays in the commencement of the *Nansen Spirit* and *Peary Spirit* time-charters; potential early termination of contracts, including the *Rio das Ostras* FPSO time-charter contract and the Statoil Master Agreement; potential delays and/or cost overruns relating to the conversion of the *Petrojarl Cidade de Itajai* FPSO unit; failure of Teekay to offer to the Partnership additional vessels or ownership interests in OPCO; failure to acquire additional vessels due to Teekay Offshore determining that they are unsuitable or not sufficiently profitable to the Partnership; required approvals by the Conflicts Committee of Teekay Offshore's general partner to acquire from Teekay vessels or ownership interests in OPCO; the Partnership's ability to raise financing to purchase additional vessels or interests in OPCO; failure to secure a new contract in excess of three years for Teekay's fourth Aframax shuttle tanker newbuilding; 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, 2009. 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.