



Company: Teekay Offshore Partners

Conference Title: Teekay Offshore Partners' Third Quarter 2016 Earning

Moderator:

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Operator: Welcome to the Teekay Offshore Partners' Third Quarter 2016 Earnings Results Conference

Call. During the call, all participants will be in a listen-only mode, afterwards you'll be invited to participate in the question and answer session. At that time if you have a question, participants will be asked to press *1 to register for a question. For assistance during the call, please press *0 on your touchtone phone. As a reminder, this call is being recorded. Now for opening remarks and introductions, I would like to turn the call over to Mr. Peter Evensen, Teekay Offshore Partners' Chief executive Officer, please go ahead sir.

Ryan: Before Mr. Evensen begins, I'd like to direct all participants to our website at www.teekay.com, where you'll find a copy of the third quarter 2016 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 results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to be materially different from those in the forward-looking statements is contained in the third quarter 2016's earnings release and earnings presentation, available on our website. I now turn the call over to Mr Evensen to begin.

Peter Evensen: Thank you Ryan and I encourage you to read the forward-looking statements. Good afternoon everyone, and thank you for joining us on our Third Quarter 2016 Investor Conference Call. I'm joined today on what will be my final Teekay Offshore quarterly conference call by Ingvild Sæther, the new



President and CEO Elect of Teekay Offshore Group Limited; David Wong, the CFO of Teekay Offshore Group, as well as Vince Lok, Teekay Corporation's CFO, and Kenneth Hvid the current president and CEO of Teekay Offshore Group, and the new CEO Elect of Teekay Corporation. During our call today, I'll be walking through the earnings presentation which can be found on our website.

On the cover slide of today's presentation, you can see a recent photo of the Libra FPSO conversion project, which is currently being completed at the Jurong Shipyard in Singapore. I'll talk more about the progress of this project and TOO's other growth projects later on today's call, but continuing to slide three, I'll briefly review some of Teekay Offshore's recent highlights.

In the third quarter of 2016, the partnership generated distributable cash flow, or DCF, of \$32 million, which \$0.23 per limited partner unit and cash flow from vessel operations, or CFVO, of \$139 million. In our shuttle tanker segment, we experienced a typical – excuse me, we experienced the typical seasonal patterns of lower utilisation, related to the annual North Sea field maintenance. Our FPSO segments recorded temporarily higher operating expenditures related to the re-delivery and decommissioning of the Varg FPSO after 18 years on the Varg oilfield, and the completion of the final performance test of the Knarr FPSO.

Our towage segment was confronted by a particularly challenging market in the third quarter, which resulted in lower-than-anticipated utilisation. As I will discuss later in my prepared remarks, we expect the fourth quarter results to be better due to increased fleet utilization and lower operating costs. For the third quarter, we declare the cash distribution of \$0.11 per unit, consistent with the prior quarter. In September of 2016, the partnership's commercial team secured a new three-year shuttle tanker contract of affreightment or COA, the largest shuttle tanker COA contract award in five years. At the end of September, the partnership took delivery of the first of four state-of-the-art ultra long-distance towing and offshore installation new buildings being constructed by Niigata Ship building & Repair in Japan. As of 30th September 2016, the partnership had total liquidity of \$398 million.



Turning to slide four, I'll provide some additional details on the new contract of affreightment we were awarded in September. The new contract is with a consortium known as the Schiehallion Co-Ventures consisting of BP, Royal Dutch Shell and OMV Group, which will operate a new FPSO to service the Schiehallion and Loyal fields west of Shetlands and in the UK sector of the North Sea. Once fully operational, the Glen Lyon FPSO will have the capacity to produce up to 130,000 barrels per day with storage for up to 800,000 barrels. The three year contract plus extension options is expected to commence in the first quarter of 2017, and is estimated to fully utilise approximately two vessels from Teekay Offshore's existing North Sea shuttle tanker fleet. With the largest shuttle tanker capacity in the North Sea, Teekay Offshore is well positioned to win these types of contracts, and with other smaller North Sea FPSOs starting oil production next year, we're expecting strong demand and high utilisation for our COA shuttle tanker fleet, which is already essentially sold out for 2017.

Turning to slide five, we are expecting fourth quarter results to be stronger from almost all of our segments. In the FPSO segment, we expect to receive annual production and maintenance bonuses in the fourth quarter, which are partially offset by relocation costs on the Cidade de Rio das Ostras FPSO unit as it moves to a new field during the fourth quarter. In the shuttle tanker segment, we expect to see stronger earnings through higher COA utilization, following the conclusion of the summer maintenance period in the North Sea, and the completion of maintenance on the Navion Anglia, to prepare her for operations in the COA fleet in the North Sea, following – excuse me – following the expiration of our time charter out contact in Brazil. This will add much needed capacity to our North Sea seaway fleet. We're also expect higher earnings in the UMS and towing segments, due to a decrease in off-hire time and an increase in utilisation, respectively. These increases are partially offset by a decrease in earnings in the FSO segments from the scheduled re-delivery and subsequent lay up of the Navion Saga FSO after completing operations on the Volve field will Statoil in early October. For further specific details on Teekay Offshore's projected DCF outlook for the fourth quarter, I encourage you to review the additional slides that we've included in the appendix to this presentation.



Turning to slide six, we continue to focus on the execution of the partnership's existing growth projects, which remain largely on track to meet scheduled deliveries in 2017 to early 2018. Starting with the out[?] new building towed vessels at the top of the slide, in last quarter's earnings call, I noted that the delivery dates for these four state-of-the art long-distance vessels have been pushed out slightly. And under our contract with the shipyard, we will be receiving cash payments to compensate us for the lost revenue resulting from the delayed delivery. With the delivery of the first vessel in September, the partnership received \$7 million in cash compensation from the shipyard, which was recognized in Teekay Offshore's third quarter distributable cash flow. The partnership expects to receive additional compensation of approximately \$21 million for the remaining three vessels as they deliver in the first half of 2017. Next, the Gina Krog FSO conversion project is on schedule to be completed in the first half of 2017, at which time it will commence its three-year plus extension options contact which start oil on the Gina Krog oil and gas field in the North Sea. The converted FSO unit using one of Teekay Offshore's former shuttle tankers with conversion work taking place at the Sembawang Shipyard in Singapore. The Libra FPSO conversion project, which is also using one of Teekay Offshore's former shuttle tankers, is currently underway at the Jurong Shipyard in Singapore. This newly converted FPSO unit, which is owned through the partnership 50/50 joint venture with Odebrecht Oil & Gas will operate on the large Libra pre-salt field in the Santos Basin offshore Brazil, with estimated results of eight to 12 billion barrels, and is currently considered to be the largest oil field Offshore Brazil. As of 30th September, this \$1 billion conversion project was approximately 80% complete, with delivery from the yard scheduled for the first quarter of 2017, and first oil expected by the end of the first half of 2017. The project remains on budget and it's fully financed through an \$800 million long-term debt facility.

Construction is well under way on our three East Coast Canada shuttle tanker new buildings, which is scheduled to deliver between late 2017 and early 2018. Following delivery, these vessels will replace two existing in[?] shuttles and one of our older shuttle tankers, which are currently servicing 15-year contracts not including extension options, with the consortium of nine oil companies producing in the East Coast Canada offshore basis. The construction of these vessels has been financed by a \$250 million long-term debt facility. Finally, it is not all good news, our Petrojarl I FPSO upgrade project has



experienced delays and increased upgrade costs, primarily due to larger scope of work relating to field-specific requirements and the age of the unit as well as slower unexpected work progress. We've been actively engaged with discussions with the charter, the shipyard and our lenders in that facility to complete the project and ensure a revised delivery schedule that can be achieved. Importantly, the charters QGEP and Barra Energy have continued to affirm their commitment to the project. The upgrade project is already over 70% complete, and based on the scope of work remaining, the unit is currently scheduled to arrive at the Atlanta Field in Offshore Brazil in the second half of 2017. Following acceptance on the field, the unit will operate under a five-year charter contact.

In total, the projects listed on these slides are expected to add approximately \$200 million of new CFBO to Teekay Offshore's annual run rate. Before wrapping up today's call, as you may know, last week I announced my intention to retire from Teekay and from my positions as CEO and CFO of the Teekay Offshore's general partner, and as CEO and president of Teekay Corporation, all effective 31st January, 2017. Kenneth Hvid currently is president and CEO of Teekay Offshore Group, which manages the operations of the partnership, will become the President and CEO of Teekay Corporation, and Ingvild Sæther the President of Teekay Offshore logistics business unit will take over as President and CEO of Teekay offshore Group Limited.

Before I conclude and pass the call over to Ingvild to say a few words, I'd like to say it's been an honour and a privilege to lead Teekay Offshore Partners, and I'm confident that Ingvild will continue that success. Ingrid became the head of our shuttle tanker group when I became the CEO of Teekay Corporation five years ago, and I gave her a challenge to both improve our shuttle tanker results and bend the cost curve as our margins were eroding at that time. She delivered, crafting a strategy and leading a team that has consistently improved the results from our shuttle tanker business, grown the business and strategically positioned us for future opportunities within this segment.



As a proven leader, I'm confident that in her new, broader role as head of Teekay Offshore Group, and with the continued support of Teekay Group, Ingvild will again meet success which will benefit all of us. I'll now pass the call over to Ingvild.

Ingvild Sæther: Thank you, Peter, and hello everyone. I'm excited and honoured to take on this new opportunity to build on Teekay Offshore success, and with our market leading businesses in the offshore oil production and transportation sector, the partnership is well positioned and my priorities as Teekay Offshore's new leader would be to continue where Peter left off, and continue working closely with Kenneth in his new role, primarily focusing on providing strong operational performance, building our customer relationships, delivering our conversion and new building projects, which are expected to provide significant cash flow growth in the future, and strengthening our balance sheet including refinancing of our 2018 and 2019 bonds' maturities.

It is a challenging time right now. Our customers have been hurt by the low oil price. However, we have recently seen the oil price stabilise within a range, and offshore field development costs have dropped to the point that new field developments are being considered by our customers. From the perspective of our business, the most important point is that even in the lower price environment, our customers still need our assets to help them produce and generate cash flow. That is because Teekay Offshore is involved in the oil production and not the oil exploration part of the offshore supply chain. The market dynamics will change, but one thing that will not change is our continued focus on achieving more cost efficient operations while maintaining safety standards.

Finally, I have no doubt that we will successfully navigate through these challenges. One thing I have learned in my more than 25 years in shipping and offshore is that whenever there is challenges, there are also opportunities and we need to keep that in mind right now. With that, I look forward to speaking with you again on future calls. Thank you all listening. Operator, we are now available to take questions.



Operator: Thank you. If you'd like to ask a question, please signal by pressing *1 on your telephone keypad. If you're using the speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press *1 to ask a question. We'll take our first question from Spiro Dounis with UBS Security.

Spiro Dounis: Hey, good afternoon again everyone. And congrats, Ingvild, on your promotion.

Ingvild Sæther: Thank you.

Spiro Dounis: I just wanted to start off maybe digging a little more on the Petrojarl I, and that the delay there, I'm not sure if you can give us a sense of maybe what the added cost amount potentially could be, and I guess what I'm trying to get at is, it sounds like –

Peter Evensen: Sorry, could you start over, we couldn't – you faded out.

Spiro Dounis: Yeah, sure. Is that better?

Peter Evensen: Yeah.

Spiro Dounis: Sure. So, just in terms of the Petrojarl I, I just wanted to dig in a little more there on maybe what the added cost is, and then I guess what I'm really getting at it is, it sounds like it's mostly due to upgrades, and so should the expectation be that the charter rate would go up in that respect, and then should we expect to get some sort of compensation from the yard just due to the timing issues?

Peter Evensen: Okay, I think we got the essence of the question, which was to give greater detail on the upgrade of the cost, and are we able to pass that onto the yard.

Spiro Dounis: Exactly.



Peter Evensen: So Kenneth, do you want to take that?

Kenneth Hvid: Yeah. Hi, it's Kenneth here. So Peter and I were in a meeting at the shipyard about two and a half weeks ago where we of course also have the customer there, so as you can imagine we have a good discussion about that. We have experienced the delay, which is largely due to some variation although we've received from the customer, it's also a couple of surprises because the age of the unit that has prolonged the upgrade, and it's productivity at the yard that hasn't been quite at the level that we expect it. So when stuff like that happens you obviously need to bring all parties inside the tent and I would say we've had some good constructive discussions which are continuing, and there will have to be give and take as we are resetting the contracts to all sites here.

I cannot provide you with specific details in terms of where exactly we're going to land up in all of the respects, but at the moment we are estimating from our last updates probably in the range of maybe \$20-25 million in increase to [inaudible] as guidance. And then we're basically working vis-à-vis the yard and the customer and making sure that we are now facing to get a tight delivery schedule that everybody is agreement on that is up against the requirements from the customer in terms of arranging spreads, and getting the unit installed on the field.

Spiro Dounis: Got it. I appreciate that colour, and sorry if you can't hear before, hopefully this is better. I'm just wondering if you could also provide a little colour on the towage market. It's a bit harder to track for us, and I'm just wondering if you can give us any sense in terms of activity. So you expect it to pickup from here, and maybe minimal rates might be going?

Peter Evensen: Sorry, we have a problem fading out. You were asking a question on the towage market?

Spiro Dounis: Yeah, so I'm holding my handset, so hopefully it's getting better, but, yeah just around towage, it's obviously a bit harder to track that market –



Peter Evensen: What we've experienced in the towage market is we had lower utilisation in the third quarter, which we expect to pickup. We're doing more rig moves, which we hadn't foreseen, but as we are taking delivery of our new four state-of-the-art units, we expect to take more of these FPSO units and offshore units that need to be moved from Asia to Europe.

Spiro Dounis: Got it, I appreciate the colour. Thanks, everyone.

Peter Evensen: So that's why we expect higher utilisation in the fourth quarter on that segment. Operator can we take the next question?

Operator: We'll go next to Michael Webber with Wells Fargo.

Michael Webber: Hey, good morning guys, how are you? Hello?

Vince Lok: Hi, Michael. Hi, Mike.

Michael Webber: Okay, hey Vince, how are you doing?

Peter Evensen: Operator, can we take the next question?

Operator: Yes, I already introduced, it's Mike Webber with Wells Fargo.

Michael Webber: Hey Peter, I just wanted to jump on with a couple of follow ups, first around the Varg, and forgive me if I missed this somewhere in the deck or in the starter remarks, I don't think I did around the employment prospects there. We're getting – I know you guys have been working on, and we're getting at the point where summer window 2017 looks pretty difficult. I believe last quarter, Kenneth, you kind of gave a bit of a range in terms of the different possibilities of when you think that could get redeployed, believe it was kind of the 2017 to kind of 2020 timeframe. Just curious as to whether or not that's kind of narrowed down at all, or when you think you should have some degree of resolution to that asset specifically.

David Wong[?]: Yeah we're having a few AV problems here, so I just want to make sure that you can hear me okay.



Michael Webber: Yeah, I got you.

David Wong: Okay, sorry about that. So I got the question, it's about the Varg and then where we're sitting on the deployment. So as we reported previously, we have been in advanced technical discussions on three opportunities for the Varg FPSO zone, we've had a number of other opportunities that we have been discussing with various customers as well. Unfortunately, one of the FPSOs – or one of the advanced opportunities that we were in discussions on, the operator there decided to go for a tieback. So we're down to two which are advanced, and as we guided in the past, we always expected to narrow it down as we're moving towards the end of the year. I think previously we guided that we would expect to be down to 1 by December. I think that's going to slip into beginning of next year as we're looking at it, but we're still seeing strong interest. It's – as a reminder, the Varg is a competitive unit with 56,000 barrels capacity. We know for a fact that a number of these field developments, we are coming in into this critical breakeven price range, which is in the 30, 40 range, and therefore is an attractive unit. But of course on some of those developments, it's also – the alternative is often a tieback, and we know that when we're starting it up, and – but that's what we're evaluating now.

Michael Webber: Got you, okay. That's helpful. Just to move to I guess a different FPSO asset, the Voyageur. We just got another year, year-and-a-half on that contract, and it seemed as though maybe one year beyond that point, that field starts to run down. I'm just curious, Kenneth, whether or not you think a one-year extension there is viable and/or when do you start looking for a longer-term home for the Voyageur. It weighs out, but it is one of the larger and more expensive asset at TOO, and is a bigger deal from a cash flow perspective certainly than the Varg or the Petrojarl I or a handful of the others, so just curious as to what your approach is to the Voyageur?

Kenneth Hvid: Yeah. And as we've looked at the field in the past where you see a longer production profile, we are not yet at the table with our customer, but of course we also are picking up some of the market reports, which is a little bit of I think positioning for getting to the table. So, of course, we'll keep you all updated as we progress this discussion. We obviously encouraged about the fact that also the



customer is looking at – to do something for longer, and as we get a better feel for that, then that will also tell us how aggressively we go out and look at some of the alternatives that we have.

And again there, the Voyageur is of course one of the modern units with – which is a good all-round unit that can be used on a number of smaller, especially UK fields. So that, we of course won't actively start to market before we know exactly what our existing customer has in mind.

Michael Webber: Okay, all right. We can follow-up on that later to get a little bit done. I guess just one more and I'll turn it over. And this might be a bit further afield, but the \$70 million claim in the Norwegian court, I guess [inaudible] around that detail. And I'm just curious is that – how you guys think about that in terms of the timeline for resolution, kind of the nature of the suit, and then whether or not that stands in the way of this [inaudible] stake being used as a form of liquidity for TOO, if need be. So I know that's kind of a loaded question. There's a lot going on there, but maybe just an overview as to how you think about that situation right now, and how you think it could evolve going forward?

Kenneth Hvid: Yeah. I'd say it is a most [inaudible] discussion that we're having on the UMS cancellation and just for the benefit of everyone, it is, of course, a discussion that started in the first part of the year, towards the first half, and where were in good discussions with COSCO basically to arrange for the delays of the units, and we had an agreement, but unfortunately we didn't quite close it with the shipyard. And as we updated you on previously, it was a condition to close our refinancing plan that we either deferred or cancelled those contracts. So we ended up cancelling them, and that has obviously resulted in a number of discussions. The contracts were always entered into by Logitel and as such, they're non-recourse to Teekay's Offshore. So there are some accounting treatment that we need to do under the accounting rules, but in terms of the discussions that are going on, it is, as you will appreciate, of course a discussion that we're having with all the parties that we're engaging in. We feel pretty good about our position, but I can't really share a whole lot more details on it as these are ongoing discussions, which also have a number of legal elements to them.

Michael Webber: Is it a fair assumption to make that it wouldn't be a viable liquidity lever until that's resolved, or is that not – is that even that being – is that too much of a –



Kenneth Hvid: I think I got your question, and unfortunately you're still fading it out, but in terms of liquidity impact, no, we think this will take a very long time if ever that would have a liquidity impact on us, so [inaudible].

Michael Webber: Great. Now I think about more of this in terms of selling it, whether or not that would get in the way of you actually selling it if you need to or want to, but I can follow-up with you offline so we get these [inaudible].

Kenneth Hvid: Absolutely, let's do that.

Michael Webber: Yeah, thank you for the time guys.

Kenneth Hvid: Thanks.

Operator: We'll go next to Fotis Giannakoulis with Morgan Stanley.

Fotis Giannakoulis: Yes can you hear me?

Peter Evensen: Yes.

Operator: Yes, your line is open.

Fotis Giannakoulis: Yes, first of all, Peter, I want to thank you for your contribution to the industry and for showing that the industry can operate at a very high standards, and I wish you all the best and all the best to the team that is replacing you. I want to ask about the Petrojarl I, about the delay and my only question has to do with the contract that it has attached, if you think that there might be any reason that it can be restructured and have different terms on what you had originally agreed?

Peter Evensen: Well, there isn't much I can add to what Kenneth said earlier. We were in the yard with a customer two weeks ago, and were having follow-on discussions with them as we look to work together with the shipyard and the customer in order to complete the project. As I said in my prepared remarks, the unit is 70% complete. All the modules are loaded on. And so, it's a matter of pulling wires and



spool, and so everyone has a chance to see that the unit is there. The customer wants the unit – or the field is ready and wants the unit, and so it's a matter of narrowing down the range.

And so we're just working out and putting more greater certainty onto the project, which is what normally happens when you get – when you experience delays on the project. And so everybody is working together in order to get the unit complete and get it out, and obviously that has ramifications for the commissioning of the field and the start-up as we have going forward. And that's where we sit right now, Fotis.

Fotis Giannakoulis: And can you give us – I remember in the past, you had talked about what is a breakeven of this field, and if you can remind us what is the cash breakeven also you need that they come out in 2018, and how they compare with the current oil prices just to have a view of what are the transition of extending the existing contracts that they come up in 2018?

Kenneth Hvid: Yeah, as a reminder, this is a very large heavy oil field that the Petrojarl I is going on. So the field has very large reserves. The economics based that we take on the Brent forward curve today, we believe is still very much in positive cash flow territory for the customer. And but more importantly, it is of course as you've seen recently, we've seen some pretty large and interesting field transactions in the North or in Brazil, where fields are changing hands, and obviously assessing, improving the field reserves is a very big part of what you do on some of these EWT smaller scale field developments. And so it's a little bit more complex than just a very long-term contract, that's going to have a margin in a classic profile, because it is as much about proving the fields of value, which is quite significant as far as we can see.

Fotis Giannakoulis: And can you also comment about the other FPSOs that they come off contract in 2018?

Kenneth Hvid: Yeah. I think we already covered the Voyageur that we talked about, and then as you're aware, we have the Ostras, which is another EWT that Petrobras has been using extensively in Brazil on a number of different fields, just going on another field now. It's on at what we consider a very strong rate, but of course it's one we could make even stronger. It's producing 15,000 barrels per day, and has a



production cost of around \$10, give and take. So another unit again in the context of going in producing a field, proving the field economics, and coming up with a plan and that's doing that at a very competitive cost. So we think it's an important strategic asset, and a number of fields will definitely need that type of a solution also going forward as we look at it.

And then I guess we have the Piranema, which is also coming up for renewal. That's a tail-end production. Again, they're a little bit similar to Voyageur. We're not quite close enough in the window to really be sitting down firmly at the table. It is a field which has, I think, tail producing now, and has been for quite some time. We haven't really seen a rapid decline in the field production for quite some time. So it seems to be quite steady around there, and then there is an area in the southern area of that field, which potentially could be developed. But again that's really the – as much as we know at this point and we are we're not quite at the point in time where we are at the table.

Peter Evensen: But the Piranema, the customer has options to extend, and so they have to look at what is the production when it comes up in late 2018, 2019. And that will, of course, depend on the actual production level at the field as well as what the oil price is then. But right now, they – our customers retain think that optionality, and so they don't have an incentive to come to us early.

Fotis Giannakoulis: Thank you very much, I appreciate your answers.

Operator: And once again it is*1 to signal for questions. Our next question comes from Ben Brownlow with Raymond James.

Ben Brownlow: Good afternoon. In the FPSO segment, the higher OPEX there, can you quantify what the expense was on the re-delivery of the Varg and the Knarr performance tests?

David Wong[?]: Yeah. So the redelivery of the Varg was an additional \$15 million for the decommissioning that we had to pay that we will need to do next quarter. As far as the Knarr, it is again another about \$2 million for full the performance test that we have to complete to be able to reduce that going to the Q4.

Ben Brownlow: Okay. And that \$4 million, that ran through on the third quarter?



David Wong: That's correct.

Ben Brownlow: Okay. And just following up kind of around the Varg, does the ability to redeploy that bad asset in a shorter timeframe relative to a new build help you compete for some of the tenders that you're seeing out there?

Peter Evensen: No. It isn't actually the time. It is more the fact that it has a lower capital cost than a new build, and therefore it drives the economics of an oil field. But there are other things, as we talked about the upgrade of the Petrojarl I is more delayed, whereas the Varg with the upgrades that we're seeing right now, that is a less risky proposition. So it has a number of benefits, but right now, we're seeing that oil companies are looking for a start-up more in a 2020 timeframe. But new buildings just don't make sense when people are trying to hit below breakeven costs in order to get the permission or to make the investment in the field.

Ben Brownlow: That makes sense. And just given the small nature of the shuttle tanker industry, I guess – but I'll follow up with you later, but I wish well on the retirement, Pete. Thanks.

Peter Evensen: Thanks a lot, Ben.

Operator: Our next question comes from Nick Raza with Citi.

Nick Raza: Thanks, guys. I was actually going to ask a question about the shuttle tanker market itself, so I guess I can ask it. So essentially, you got this new contract, and we keep hearing about the shuttle tanker contract market being pretty tight. Is there a fear that eventually there's going to be more capital in flowed[?] into the market, and more new builds ordered kind of what happened with LNG, is that something that we should be thinking about?

Ingvild Sæther: I think what's important to understand is that there are two types of shuttle tanker markets, you have the time charter market and you have the COA market. And for the COA market, it's really about size, so it's difficult to start up that as a new player. So we – it is a niche market, and we think we are



very well positioned in that market, and there aren't any speculative orders that is expected to come into that market segment.

Nick Raza: Okay.

Kenneth Hvid: I think a big difference, if I may add, I think the big difference when you look at the drive we saw back on the LNG market, and you saw orders being placed with our long-term contracts, which as you correctly pointed out, was a deviation from how LNG carriers have been contracted in the past. There were two things happening – A couple of things actually. A, it was a growing segment. LNG there was a big forecast where you could see that you just need a lot more LNG carriers and it was a matter of matching carriers up against a growing market, and people were trying to position themselves for that. And of course we had the Fukushima effect, which really drove up demand and you basically created an enormous up in the world, which also supported a very strong spotlight. So we sold \$140,000 range in the LNG spot market, as you recall. And when people see that, you obviously get some excitement. And as Ingvild said, the shuttle tanker segment is much more of a niche market. It's one that we're happy in, but of course it doesn't have at all the macro fundamentals that we see in, for example, the gas market. So it's a much more mature market in that sense. And of course the other big difference is that, I mean, you don't really go out and order a shuttle tanker on speculation unless you're in this market, right, because it carries an additional cost of \$40 million, \$50 million. So even if you can trade it in the conventional market, the typical tanker owner doesn't want to really load up with that additional investment. So those are some of the at least differences as we look at it.

Nick Raza: Fair enough. And then on the towage units, essentially what's driving the delay? Is it there is capacity of the shipyards or something else?

Peter Evensen: That was a shipyard-specific problem that it just took them longer, which is why our liquidated damages kicked in and that's why we got a rebate.

Nick Raza: And the remaining three of the four that are left, essentially are those going to be delayed as well, or do we expect those to be on time?



Peter Evensen: Well, they are delayed over what they were originally coming at, but we will get them all in the first half of 2017. That's the revised delivery date. And we're confident in that revised date.

Nick Raza: Okay, fair enough.

Peter Evensen: And we're confident enough in that revised date

Nick Raza: Okay, got it. Thanks, Peter. And just switching gears, there was a press release at Petrobras put out, I believe it was in October, stating that they were going to rebid the pilot FPSO for the Libra. I'm assuming that's not specific to TOO, but if you could provide any colour, just want to confirm that.

Peter Evensen: Yeah, that's correct and that's our understanding that they're in that process as well. I don't think, as we've said previously, our focus is not on the very large FPSOs in any of these segments. So this has not been like firmly on our radar screen, we are, as you know in on the EWT FPSO that's going on the Libra field, which is a smaller FPSO than the pilot one, and it looks like you're correct in Petrobras and the partners opting for the larger size as well. That's what we're also hearing. And those would probably go to other competitors and we would focus on the more large/medium sized units, when we feel we are in a stronger position.

Nick Raza: Fair enough, that's all I had, thank you so much guys.

Peter Evensen: Thank you.

Operator: We'll go next to Shannon Bass with Graham Capital.

Shannon Bass: Hi, there. Thanks for taking my call. I own the sixes[?] of 19[?], and I guess my question is you mentioned briefly in your prepared remarks you're going to take a look at addressing your 2018, 2019 bonds. So I guess my question is what's the plan, how are you – what's your approach going to be, given that the bonds yield 12% to 14%, well in excess of the equity, I guess. How do you think about capital allocation, and just how you see this thing playing out over the next year or two as you try to deal with some of this unsecured debt? Thank you.



Peter Evensen: Sure, so our plan, which we articulated in previous quarters, is very simple, which is that we're going to deliver these four big projects. The Libra FPSO, the Atlanta FPSO, the three East Coast Canada, and the Gina Krog, and that will give us an extra \$200 million of cash flow from vessel operations or EBITDA per year. And that will enable us between now and mid-2018 to de-lever the company. Right now, we're up at about 4.7, 4.8 times, and we think we can reduce to leverage down by 1 to 1.5 turns into 3 to 3.5 times debt-to-EBITDA. And that will put us in a position that we can either refinance in the Norwegian kroner bond market, or get a credit rating in the United States and then refinance that approximately \$600 million of bonds that come due within a 9-month window. So if we get a credit rating, then we can do a bigger bond offering, then the sixes of 2019 that we did and that's our plan.

Shannon Bass: Great, thanks for the update.

Peter Evensen: Thank you.

Operator: At this time, I'll turn the conference back to Peter Evensen for any closing or additional remarks.

Peter Evensen: All right, thank you all for all the good questions. As you hear, there's a lot going on at Teekay Offshore, and it's all about executing on our projects, and I just wanted to say thank you for the time I've had as the CEO of Teekay Offshore, and I think we've got a great team to take over. Thank you very much.

Operator: This concludes today's conference. Thank you for your participation. You may now disconnect.