UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2014

Commission file number 1- 33198

TEEKAY OFFSHORE PARTNERS L.P.

(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40- F ________

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).

Yes ________ No ___X___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).

Yes ________ No ___X___

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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ITEM 1 - FINANCIAL STATEMENTS
TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in thousands of U.S. dollars, except unit and per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014 $	2013 $	2014 $	2013 $
Revenues *(note 8)*	258,442	235,561	759,078	670,085
Voyage expenses	(28,622)	(28,249)	(88,332)	(74,470)
Vessel operating expenses *(note 8)*	(91,638)	(89,035)	(267,952)	(252,878)
Time-charter hire expense	(7,085)	(14,142)	(23,472)	(43,012)
Depreciation and amortization	(49,759)	(51,920)	(146,721)	(146,695)
General and administrative *(notes 8, 13 and 15a)*	(14,038)	(12,600)	(46,941)	(33,407)
Write-down of vessels *(note 14)*	(4,759)	(57,502)	(4,759)	(57,502)
Restructuring (charge) recovery *(note 7)*	-	(449)	262	(2,503)
Income (loss) from vessel operations	62,541	(18,336)	181,163	59,618
Interest expense *(notes 6 and 8)*	(22,911)	(16,789)	(63,399)	(44,452)
Interest income *(note 8)*	145	467	512	2,127
Realized and unrealized (losses) gains on derivative instruments *(note 9)*	(9,432)	(7,952)	(84,208)	24,872
Equity income	2,486	1,199	8,577	2,797
Foreign currency exchange loss *(note 9)*	(939)	(2,730)	(4,550)	(2,813)
Loss on bond repurchase *(note 6)*	-	-	-	(1,759)
Other (expense) income – net	(278)	310	184	884
Income (loss) from continuing operations before income tax expense	31,612	(43,831)	38,279	41,274
Income tax expense *(note 10)*	(1,468)	(107)	(2,913)	(329)
Net income (loss) from continuing operations	30,144	(43,938)	35,366	40,945
Net loss from discontinued operations *(notes 8 and 14)*	-	(333)	-	(4,642)
Net income (loss)	30,144	(44,271)	35,366	36,303
Non-controlling interests in net income (loss)	1,623	(18,483)	4,956	(13,432)
Dropdown Predecessor's interest in net income *(note 3)*	-	-	-	(2,225)
Preferred unitholders' interest in net income (loss) *(note 12)*	2,719	2,719	8,156	4,531
General Partner's interest in net income (loss) from continuing operations	4,376	2,123	12,015	9,505
General Partner's interest in net income (loss) from discontinued operations	-	25	-	(452)
General Partner's interest in net income (loss)	4,376	2,148	12,015	9,053
Limited partners' interest in net income (loss) from continuing operations	21,426	(30,297)	10,239	42,566
Limited partners' interest in net income (loss) from continuing operations per common unit:				
- basic *(note 12)*	0.25	(0.36)	0.12	0.52
- diluted *(note 12)*	0.25	(0.36)	0.12	0.52
Limited partners' interest in net loss from discontinued operations	-	(358)	-	(4,190)
Limited partners' interest in net income (loss) from discontinued operations per common unit:				
- basic *(note 12)*	-	-	-	(0.05)
- diluted *(note 12)*	-	-	-	(0.05)
Limited partners' interest in net income (loss)	21,426	(30,655)	10,239	38,376
Limited partners' interest in net income (loss) per common unit:				
- basic *(note 12)*	0.25	(0.36)	0.12	0.47
- diluted *(note 12)*	0.25	(0.36)	0.12	0.47
Weighted-average number of common units outstanding:				
- basic	85,681,495	83,700,905	85,556,125	82,190,727
- diluted	85,717,631	83,700,905	85,626,915	82,205,069
Cash distributions declared per unit	0.5384	0.5253	1.6152	1.5759

Related party transactions *(note 8)*

The accompanying notes are an integral part of the unaudited consolidated financial statements

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands of U.S. dollars)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income (loss)	30,144	(44,271)	35,366	36,303
Other comprehensive income:				
Unrealized net gain on qualifying cash flow hedging instruments	-	-	-	6
Realized net loss on qualifying cash flow hedging instruments	-	-	-	52
Other comprehensive income	-	-	-	58
Comprehensive income (loss)	30,144	(44,271)	35,366	36,361
Non-controlling interests in comprehensive income (loss)	1,623	(18,483)	4,956	(13,432)
Preferred unitholders' interest in comprehensive income (loss)	2,719	2,719	8,156	4,531
Dropdown Predecessor's interest in comprehensive income *(note 3)*	-	-	-	(2,225)
General and limited partners' interest in comprehensive income (loss)	25,802	(28,507)	22,254	47,487

The accompanying notes are an integral part of the unaudited consolidated financial statements.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at September 30, 2014 $	As at December 31, 2013 $
ASSETS		
Current		
Cash and cash equivalents	224,566	219,126
Accounts receivable, including non-trade of $25,107 (December 31, 2013 - $40,043) *(notes 9 and 11a)*	129,638	176,265
Vessel held for sale *(note 14)*	6,758	-
Net investments in direct financing leases - current *(note 4b)*	5,777	5,104
Prepaid expenses	34,968	31,675
Due from affiliates *(note 8b)*	53,572	15,202
Current portion of derivative instruments *(note 9)*	17	500
Other current assets	5,097	3,051
Total current assets	460,393	450,923
Vessels and equipment		
At cost, less accumulated depreciation of $1,151,838 (December 31, 2013 - $1,016,812)	2,942,497	3,059,770
Advances on newbuilding contracts and conversion costs *(notes 11c, 15a and 15b)*	152,919	29,812
Investment in equity accounted joint venture *(note 8d)*	59,793	52,120
Net investments in direct financing leases *(note 4b)*	72,050	22,463
Derivative instruments *(note 9)*	7,926	10,323
Deferred tax asset	6,686	7,854
Other assets	52,419	35,272
Intangible assets – net	7,417	10,436
Goodwill	129,145	127,113
Total assets	3,891,245	3,806,086
LIABILITIES AND EQUITY		
Current		
Accounts payable	22,630	15,753
Accrued liabilities *(notes 7, 9 and 11a)*	122,498	138,156
Deferred revenues	19,597	29,075
Due to affiliates *(note 8b)*	46,709	121,864
Current portion of long-term debt *(note 6)*	376,025	806,009
Current portion of derivative instruments *(note 9)*	63,106	47,944
Current portion of in-process revenue contracts	12,744	12,744
Total current liabilities	663,309	1,171,545
Long-term debt *(note 6)*	2,211,618	1,562,967
Derivative instruments *(note 9)*	170,359	121,135
In-process revenue contracts	79,017	88,550
Other long-term liabilities	41,840	23,984
Total liabilities	3,166,143	2,968,181
Commitments and contingencies *(notes 6, 9, and 11)*		
Redeemable non-controlling interest *(note 11b)*	17,286	16,564
Equity		
Limited partners - common units (85.7 million and 85.5 million units issued and outstanding at September 30, 2014 and December 31, 2013, respectively)	499,155	621,002
Limited partners - preferred units (6.0 million and 6.0 million units issued and outstanding at September 30, 2014 and December 31, 2013, respectively) *(note 12)*	144,800	144,800
General Partner	18,891	21,242
Partners' equity	662,846	787,044
Non-controlling interests	44,970	34,297
Total equity	707,816	821,341
Total liabilities and equity	3,891,245	3,806,086

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2014	**2013**
	$	**$**
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	35,366	36,303
Non-cash items:		
Unrealized loss (gain) on derivative instruments *(note 9)*	67,266	(71,152)
Equity income, net of dividends received of $7,390 (2013 - $nil)	(1,187)	(2,797)
Depreciation and amortization	146,721	147,931
Write-down of vessels *(note 14)*	4,759	75,967
Deferred income tax expense (recovery) *(note 10)*	887	(148)
Amortization of in-process revenue contracts	(9,532)	(9,532)
Foreign currency exchange gain and other	(28,667)	(33,575)
Change in non-cash working capital items related to operating activities	(105,368)	66,016
Expenditures for dry docking	(26,527)	(15,360)
Net operating cash flow	**83,718**	**193,653**
FINANCING ACTIVITIES		
Proceeds from long-term debt	799,049	971,481
Scheduled repayments of long-term debt	(274,164)	(122,976)
Prepayments of long-term debt	(308,625)	(433,152)
Debt issuance costs	(10,555)	(13,371)
Equity contribution from Teekay Corporation to Dropdown Predecessor	-	5,596
Purchase of Voyager LLC from Teekay Corporation (net of cash acquired of $0.9 million and $3.5 million indemnified by Teekay Corporation (2013 - $30.0 million)) *(note 8c)*	3,474	(239,036)
Equity contribution from joint venture partner	26,267	1,500
Proceeds from issuance of common units	7,784	65,124
Proceeds from issuance of preferred units	-	150,000
Expenses relating to equity offerings	(153)	(5,728)
Cash distributions paid by the Partnership	(160,926)	(141,783)
Cash distributions paid by subsidiaries to non-controlling interests	(19,828)	(4,190)
Other	684	-
Net financing cash flow	**63,007**	**233,465**
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(140,755)	(354,294)
Purchase of equity investment in Itajai FPSO joint venture (net of cash acquired of $1.3 million) *(note 8d)*	-	(52,520)
Proceeds from sale of vessels and equipment	-	27,986
Advances to joint venture partners and equity accounted joint ventures	(6,487)	-
Direct financing lease payments received	4,189	4,271
Acquisition of ALP Maritime Services B.V. (net of cash acquired of $0.3 million) *(note 15a)*	(2,322)	-
Acquisition of Logitel Offshore Holding AS (net of cash acquired of $8.1 million) *(note 15b)*	4,090	-
Net investing cash flow	**(141,285)**	**(374,557)**
Increase in cash and cash equivalents	5,440	52,561
Cash and cash equivalents, beginning of the period	219,126	206,339
Cash and cash equivalents, end of the period	224,566	258,900

The accompanying notes are an integral part of the unaudited consolidated financial statements.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY
(in thousands of U.S. dollars and units)

	PARTNERS' EQUITY							
	Limited Partners							
	Common Units #	Common Units and Additional Paid-in Capital $	Preferred Units #	Preferred Units $	General Partner $	Non-controlling Interests $	Total Equity $	Redeemable Non-controlling Interest $
Balance as at December 31, 2013	85,453	621,002	6,000	144,800	21,242	34,297	821,341	16,564
Net income	-	10,239	-	8,156	12,015	4,956	35,366	-
Reclassification of redeemable non-controlling interest in net income	-	-	-	-	-	(4,220)	(4,220)	4,220
Cash distributions	-	(138,155)	-	(8,156)	(14,615)	-	(160,926)	-
Distribution of capital to joint venture partner	-	-	-	-	-	(16,330)	(16,330)	(3,498)
Contribution of capital from joint venture partner	-	-	-	-	-	26,267	26,267	-
Indemnification of Voyageur LLC from Teekay Corporation *(note 8c)*	-	3,405	-	-	69	-	3,474	-
Proceeds from equity offerings, net of offering costs *(note12)*	213	7,475	-	-	156	-	7,631	-
Distribution of capital to Teekay Corporation related to the equity investment in *Itajai FPSO* joint venture *(note 8d)*	-	(6,082)	-	-	-	-	(6,082)	-
Equity based compensation and other *(notes 8e and 13)*	15	1,271	-	-	24	-	1,295	-
Balance as at September 30, 2014	85,681	499,155	6,000	144,800	18,891	44,970	707,816	17,286

The accompanying notes are an integral part of the unaudited consolidated financial statements.

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). These financial statements include the accounts of Teekay Offshore Partners L.P., which is a limited partnership organized under the laws of the Republic of The Marshall Islands, and its wholly owned or controlled subsidiaries (collectively, the *Partnership*). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and therefore, these interim financial statements should be read in conjunction with the Partnership's audited consolidated financial statements for the year ended December 31, 2013, which are included in the Partnership's Annual Report on Form 20-F. In the opinion of management of our general partner, Teekay Offshore GP L.L.C. (or the *General Partner*), these interim unaudited consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership's consolidated financial position, results of operations, changes in total equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Historically, the utilization of shuttle tankers in the North Sea is higher in the winter months and lower in the summer months, as generally there is higher maintenance in the oil fields during the summer months, which leads to lower oil production, and thus, lower shuttle tanker utilization during that period. Significant intercompany balances and transactions have been eliminated upon consolidation.

In the current period the Partnership has presented the conversion costs for the Partnership's committed vessel conversions in Advances on newbuilding contracts and conversion costs. Prior to June 30, 2014, the Partnership included these amounts in Vessels and equipment – At cost, less accumulated depreciation. All such costs incurred in comparative periods have been reclassified from Vessels and equipment – At cost, less accumulated depreciation to Advances on newbuilding contracts and conversion costs to conform to the presentation adopted in the current period. The amount reclassified as at December 31, 2013 was $29.8 million.

2. Accounting Pronouncement Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (or *FASB*) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, (or *ASU 2014-09*). ASU 2014-09 will require entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016 and shall be applied, at the Partnership's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. The Partnership is evaluating the effect of adopting this new accounting guidance.

In April 2014, the FASB issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (or *ASU 2014-08*) which raises the threshold for disposals to qualify as discontinued operations. A discontinued operation is now defined as: (i) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results; or (ii) an acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. ASU 2014-08 is effective for fiscal years beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in the financial statements previously issued or available for issuance. The impact, if any, of adopting ASU 2014-08 on the Partnership's financial statements will depend on the occurrence and nature of disposals that occur after ASU 2014-08 is adopted.

3. Dropdown Predecessor

On May 2, 2013, the Partnership acquired from Teekay Corporation its 100% interest in Voyageur LLC, which owns the *Voyageur Spirit*, a floating, production, storage and off-loading (or *FPSO*) unit, which operates on the Huntington Field in the North Sea under a five-year contract, plus up to 10 one-year extension options, with E.ON RuRuhrgas UK E&P Limited (or *E.ON*), for an original purchase price of $540.0 million that was effectively reduced to $505.8 million (see note 8c). The Partnership has accounted for this acquisition as a transfer of a business between entities under common control. The method of accounting for such transfer is similar to the pooling of interests method of accounting. Under this method, the carrying amounts of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. The excess of the proceeds paid by the Partnership over Teekay Corporation's historical cost is accounted for as an equity distribution to Teekay Corporation. In addition, transfers of net assets between entities under common control are accounted for as if the transfer occurred from the date that the Partnership and the *Voyageur Spirit* were both under the common control of Teekay Corporation and had begun operations.

As a result, the Partnership's consolidated statements of income and cash flows for the nine months ended September 30, 2013 reflect this unit and its results of operations, referred to herein as the *Dropdown Predecessor*, as if the Partnership had acquired it when it began operations under the control of Teekay Corporation on April 13, 2013. The effect of adjusting the Partnership's financial statements to retrospectively account for the common control exchange for the period April 13, 2013 to May 2, 2013 decreased the Partnership's net income and comprehensive income by $2.2 million for the nine months ended September 30, 2013.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

4. Financial Instruments

a) Fair Value Measurements

For a description of how the Partnership estimates fair value and for a description of the fair value hierarchy levels, see Note 3 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2013. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis, as well as the estimated fair value of the Partnership's financial instruments that are not accounted for at fair value on a recurring basis.

		September 30, 2014		December 31, 2013	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $
Recurring:					
Cash and cash equivalents	Level 1	224,566	224,566	219,126	219,126
Contingent consideration *(see below)*	Level 3	(21,447)	(21,447)	-	-
Derivative instruments *(note 9)*					
Interest rate swap agreements	Level 2	(179,878)	(179,878)	(141,143)	(141,143)
Cross currency swap agreements	Level 2	(51,292)	(51,292)	(25,433)	(25,433)
Foreign currency forward contracts	Level 2	(2,458)	(2,458)	(842)	(842)
Non-Recurring:					
Vessels and equipment	Level 2	7,000	7,000	17,250	17,250
Other:					
Long-term debt - public *(note 6)*	Level 1	(922,402)	(927,284)	(487,097)	(496,609)
Long-term debt - non-public *(note 6)*	Level 2	(1,665,241)	(1,658,599)	(1,881,879)	(1,835,218)

Contingent consideration liability – In August 2014, the Partnership acquired 100% of the outstanding shares of Logitel Offshore Holding AS (*Logitel*), a Norway-based company focused on the high-end floating accommodation market, from Cefront Technology AS (*Cefront*) for $4 million, which was paid in cash at closing, plus a potential additional amount of up to $27.6 million, depending on certain performance criteria, which is payable from early-2015 to late-2017 (see note 15b).

The Partnership will owe an additional amount of up to $27.6 million if there are no yard cost overruns, and no charterer late delivery penalties; the two unfixed floating accommodation units (*FAUs*) under construction are chartered above specified rates; and no material defects from construction are identified up until one year after the delivery of each FAU. To the extent such events occur, the potential additional amount of $27.6 million will be reduced in accordance with the terms of the purchase agreement. The estimated fair value of the contingent consideration liability of $21.4 million is the amount the Partnership expects to pay to Cefront discounted to its present value using a weighted average cost of capital rate of 10%. As of September 30, 2014, the amount of the expected payments for each FAU was based upon the status of the construction project for each FAU, the state of the charter market for FAUs, the expectation of potential material defects and to a lesser extent, the timing of delivery of each FAU. An increase (decrease) in the Partnership's estimates of yard cost overruns, charterer late delivery penalties, material defects and the discount rate, as well as a decrease (increase) in the Partnership's estimates of day rates at which it expects to charter the two unfixed FAUs for, will decrease (increase) the estimated fair value of the contingent consideration liability.

Changes in the estimated fair value of the contingent consideration liability during the three and nine months ended September 30, 2014 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014 $	2013 $	2014 $	2013 $
Balance at beginning of period	-	-	-	-
Acquisition of Logitel	(21,169)	-	(21,169)	-
Unrealized loss included in Other (expense) income - net	(278)	-	(278)	-
Balance at end of period	(21,447)	-	(21,447)	-

b) Financing Receivables

The following table contains a summary of the Partnership's financing receivables by type of borrower and the method by which the Partnership monitors the credit quality of its financing receivables on a quarterly basis:

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

	Credit Quality Indicator	Grade	September 30, 2014 $	December 31, 2013 $
Direct financing leases	Payment activity	Performing	77,827	27,567

5. Segment Reporting

The following table includes results for the Partnership's shuttle tanker segment, FPSO unit segment, floating, storage and off-take (or *FSO*) unit segment, conventional tanker segment, towage segment and FAU segment for the periods presented in these consolidated financial statements. The results below exclude three conventional tankers as they are determined to be discontinued operations (see note 14):

	Shuttle Tanker Segment		FPSO Segment (1)		FSO Segment		Conventional Tanker Segment		Total	
	Three Months Ended September 30,									
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Revenues	145,043	139,554	92,801	73,908	12,786	14,151	7,812	7,948	258,442	235,561
Voyage expenses	(26,233)	(27,108)	-	-	(1,038)	(22)	(1,351)	(1,119)	(28,622)	(28,249)
Vessel operating expenses	(38,970)	(37,221)	(43,141)	(42,773)	(7,969)	(7,547)	(1,558)	(1,494)	(91,638)	(89,035)
Time-charter hire expense	(7,085)	(14,142)	-	-	-	-	-	-	(7,085)	(14,142)
Depreciation and amortization	(27,727)	(29,720)	(18,186)	(17,789)	(2,232)	(2,736)	(1,614)	(1,675)	(49,759)	(51,920)
General and administrative (2)	(7,332)	(6,172)	(5,143)	(5,231)	(768)	(11)	(795)	(1,186)	(14,038)	(12,600)
Write-down of vessels	(4,759)	(57,502)	-	-	-	-	-	-	(4,759)	(57,502)
Restructuring charge	-	(449)	-	-	-	-	-	-	-	(449)
Income (loss) from vessel operations(3)	32,937	(32,760)	26,331	8,115	779	3,835	2,494	2,474	62,541	(18,336)

	Shuttle Tanker		FPSO Segment (1)		FSO Segment		Conventional Tanker Segment		Total	
	Nine Months Ended September 30,									
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Revenues	435,369	403,126	259,922	196,853	38,748	44,344	25,039	25,762	759,078	670,085
Voyage (expenses) recoveries	(82,858)	(71,677)	-	-	(1,210)	463	(4,264)	(3,256)	(88,332)	(74,470)
Vessel operating expenses	(119,090)	(111,699)	(123,005)	(112,348)	(21,374)	(24,147)	(4,483)	(4,684)	(267,952)	(252,878)
Time-charter hire expense	(23,472)	(43,012)	-	-	-	-	-	-	(23,472)	(43,012)
Depreciation and amortization	(82,386)	(85,490)	(54,275)	(48,330)	(5,223)	(8,061)	(4,837)	(4,814)	(146,721)	(146,695)
General and administrative (2)	(21,157)	(16,972)	(18,890)	(12,893)	(2,654)	(1,585)	(1,640)	(1,957)	(44,341)	(33,407)
Acquisition and business development fee (4)	-	-	-	-	-	-	-	-	(2,600)	-
Write-down of vessels	(4,759)	(57,502)	-	-	-	-	-	-	(4,759)	(57,502)
Restructuring recovery (charge)(5)	262	(2,065)	-	-	-	-	-	(438)	262	(2,503)
Income from vessel operations(3)	101,909	14,709	63,752	23,282	8,287	11,014	9,815	10,613	181,163	59,618

(1) Income from vessel operations for the nine months ended September 30, 2014 excludes $3.1 million of the *Voyageur Spirit* FPSO unit indemnification payments made by Teekay Corporation relating to the production shortfall during the period January 1, 2014 through to February 21, 2014 and a further $0.4 million relating to unreimbursed vessel operating expenses incurred before the unit was declared on-hire as of February 22, 2014.

Income (loss) from vessel operations for the three and nine months ended September 30, 2013 excludes $12.2 million and $29.2 million, respectively, of indemnification payments made by Teekay Corporation relating to production shortfalls for both the Dropdown Predecessor period from April 13, 2013 to May 1, 2013 and the period during which the unit was owned by the Partnership from May 2, 2013 to September 30, 2013 as the *Voyageur Spirit* FPSO unit was declared off-hire retroactive to first oil given the delay in achieving final acceptance from the charterer.

These indemnification payments by Teekay Corporation have effectively been treated as a reduction to the purchase price of the *Voyageur Spirit* (see note 8c).

(2) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of corporate resources).

(3) The FAU segment has not been disaggregated as its results are not material.

(4) The towage segment has not been disaggregated as its results are not material other than a $1.0 million fee to a third party associated with the acquisition of ALP Maritime Services B.V. (or *ALP*) and a $1.6 million business development fee to Teekay Corporation for assistance with the

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acquisition of ALP, which were recognized in general and administrative expenses in the consolidated statement of income (loss) for the nine months ended September 30, 2014 (see note 8a).

(5) Restructuring recovery for the nine months ended September 30, 2014 includes a $0.8 million reimbursement received during the second quarter of 2014, for the reorganization of the Partnership's shuttle tanker marine operations, which was completed during 2013 and a restructuring charge of $0.6 million related to the reflagging of one shuttle tanker which commenced in January 2014 and was completed in March 2014 (see note 7).

A reconciliation of total segment assets to total assets presented in the accompanying consolidated balance sheets is as follows:

	September 30, 2014 $	December 31, 2013 $
Shuttle tanker segment	1,964,125	2,004,505
FPSO segment	1,254,120	1,303,229
FSO segment	137,314	102,452
Conventional tanker segment	146,086	144,723
Towage segment	55,698	-
Floating accommodation unit segment	55,966	-
Unallocated:		
Cash and cash equivalents	224,566	219,126
Other assets	53,370	32,051
Consolidated total assets	3,891,245	3,806,086

6. Long-Term Debt

	September 30, 2014 $	December 31, 2013 $
U.S. Dollar-denominated Revolving Credit Facilities due through 2018	650,127	743,494
Norwegian Kroner Bonds due through 2019	451,284	312,947
U.S. Dollar-denominated Term Loans due through 2018	164,300	188,854
U.S. Dollar-denominated Term Loans due through 2023	824,198	949,531
U.S. Dollar Non-Public Bond due through 2017	26,616	-
U.S. Dollar Bonds due through 2023	471,118	174,150
Total	2,587,643	2,368,976
Less current portion	376,025	806,009
Long-term portion	2,211,618	1,562,967

As at September 30, 2014, the Partnership had seven long-term revolving credit facilities, which, as at such date, provided for total borrowings of up to $823.7 million, of which $173.6 million was undrawn. The total amount available under the revolving credit facilities reduces by $492.7 million (remainder of 2014), $77.8 million (2015), $140.5 million (2016), $39.6 million (2017) and $73.1 million (2018). Five of the revolving credit facilities are guaranteed by the Partnership and certain of its subsidiaries for all outstanding amounts and contain covenants that require the Partnership to maintain the greater of a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) of at least $75.0 million and 5.0% of the Partnership's total consolidated debt. Two revolving credit facilities are guaranteed by Teekay Corporation and contain covenants that require Teekay Corporation to maintain the greater of a minimum liquidity (cash and cash equivalents) of at least $50.0 million and 5.0% of Teekay Corporation's total consolidated debt which has recourse to Teekay Corporation. The revolving credit facilities are collateralized by first-priority mortgages granted on 24 of the Partnership's vessels, together with other related security. Subsequent to September 30, 2014, the Partnership completed the refinancing of $330.0 million of revolving credit facilities coming due during the remainder of 2014. The amount available under the new revolving credit facility will reduce quarterly by $16.5 million per quarter over five years. In addition, the Partnership entered into a $50.0 million term loan in September 2014, which was undrawn at September 30, 2014. The Partnership drew on the term loan in October 2014 and used the proceeds for general partnership purposes.

In January 2014, the Partnership issued NOK 1,000 million in senior unsecured bonds that mature in January 2019 in the Norwegian bond market. As of September 30, 2014, the carrying amount of the bonds was $155.6 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 4.25%. The Partnership entered into a cross currency swap to swap all interest and principal payments into USD, with the interest payments fixed at a rate of 6.28%, and the transfer of the principal amount fixed at $162.2 million upon maturity in exchange for NOK 1,000 million (see note 9).

In January 2013, the Partnership issued Norwegian Kroner (or *NOK*) 1,300 million in senior unsecured bonds in the Norwegian bond market. The bonds were issued in two tranches maturing in January 2016 (NOK 500 million) and January 2018 (NOK 800 million). As at September 30, 2014, the carrying amount of the bonds was $202.3 million. The bonds are listed on the Oslo Stock Exchange. Interest payments on the tranche maturing in 2016 are based on NIBOR plus a margin of 4.00%. Interest payments on the tranche maturing in 2018 are based on NIBOR plus a margin of 4.75%. The Partnership entered into cross currency rate swaps to swap all interest and principal payments into USD, with interest payments fixed at a rate of 4.80% on the tranche maturing in 2016 and 5.93% on the tranche maturing in 2018 and the transfer of the principal amount fixed at $89.7 million upon maturity in exchange for NOK 500 million on the tranche maturing in 2016 and fixed at $143.5 million upon maturity in exchange for NOK 800 million on the tranche maturing in 2018 (see note 9). As part of this bond issuance, the

Partnership repurchased, at a premium, NOK 388.5 million of a then outstanding NOK 600 million bond with a maturity date in November 2013. In connection with this repurchase of bonds, the Partnership terminated a similar notional amount of the related cross currency swap (see note 9). The Partnership recorded a loss in relation to this repurchase of $1.8 million in its consolidated statement of income for the nine months ended September 30, 2013.

In January 2012, the Partnership issued NOK 600 million in senior unsecured bonds that mature in January 2017 in the Norwegian bond market. As at September 30, 2014, the carrying amount of the bonds was $93.4 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 5.75%. The Partnership entered into a cross currency rate swap to swap all interest and principal payments into USD, with the interest payments fixed at a rate of 7.49%, and the transfer of the principal amount fixed at $101.4 million upon maturity in exchange for NOK 600 million (see note 9).

As at September 30, 2014, four of the Partnership's 50% owned subsidiaries each had an outstanding term loan, which in the aggregate totaled $164.3 million. The term loans reduce over time with quarterly and semi-annual payments and have varying maturities through 2018. These term loans are collateralized by first-priority mortgages on the four shuttle tankers to which the loans relate, together with other related security. As at September 30, 2014, the Partnership had guaranteed $44.6 million of these term loans, which represents its 50% share of the outstanding term loans of three of these 50%-owned subsidiaries. The other owner and Teekay Corporation have guaranteed $82.2 million and $37.5 million, respectively, of the outstanding term loans.

As at September 30, 2014, the Partnership had term loans outstanding for the shuttle tankers the *Amundsen Spirit*, the *Nansen Spirit*, the *Peary Spirit*, the *Scott Spirit,* the *Samba Spirit* and the *Lambada Spirit* and for the *Piranema Spirit* and the *Voyageur Spirit* FPSO units, which in aggregate totaled $824.2 million. For the term loans for the *Amundsen Spirit* and the *Nansen Spirit*, one tranche reduces in semi-annual payments while the other tranche correspondingly is drawn up every six months with final bullet payments of $28.3 million due in 2022 and $29.1 million due in 2023, respectively. The *Peary Spirit*, the *Scott Spirit,* the *Samba Spirit,* the *Lambada Spirit,* the *Piranema Spirit* and the *Voyageur Spirit* term loans reduce over time with quarterly or semi-annual payments. These term loans have varying maturities through 2023 and are collateralized by first-priority mortgages on the vessels to which the loans relate, together with other related security. As at September 30, 2014, the Partnership had guaranteed $496.7 million of these term loans and Teekay Corporation had guaranteed $327.5 million.

In August 2014, the Partnership assumed Logitel's obligations under a bond agreement from Sevan Marine ASA (or *Sevan*) as part of the Logitel acquisition (see note 15b). The bonds are redeemable at par at any time by Logitel. As of September 30, 2014, the carrying amount of the bond was $26.6 million.

In May 2014, the Partnership issued $300.0 million in senior unsecured bonds that mature in July 2019 in the U.S. bond market. As of September 30, 2014, the carrying amount of the bonds was $300.0 million. The bonds are listed on the New York Stock Exchange. The interest payments on the bonds are fixed at a rate of 6.0%.

In September 2013, the Partnership issued $171.1 million of ten-year senior unsecured bonds that mature in December 2023 that were issued in a U.S. private placement to finance the *Bossa Nova Spirit* and the *Sertanejo Spirit* shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security. As of September 30, 2014, the carrying amount of the bonds was $171.1 million.

Interest payments on the revolving credit facilities and the term loans are based on LIBOR plus margins. At September 30, 2014 and December 31, 2013, the margins ranged between 0.3% and 3.25%. The weighted-average effective interest rate on the Partnership's variable rate long-term debt as at September 30, 2014 was 3.2% (December 31, 2013 - 2.7%). This rate does not include the effect of the Partnership's interest rate swaps (see note 9).

The aggregate annual long-term debt principal repayments required to be made subsequent to September 30, 2014 are $512.4 million (remainder of 2014), $174.2 million (2015), $266.8 million (2016), $363.6 million (2017), $399.1 million (2018), and $871.5 million (thereafter).

The Partnership and a subsidiary of Teekay Corporation are borrowers under a loan arrangement and are jointly and severally liable for the obligations to the lender. The obligations resulting from long-term debt joint and several liability arrangements are measured at the sum of the amount the Partnership agreed to pay, on the basis of its arrangement with the co-obligor, and any additional amount the Partnership expects to pay on behalf of the co-obligor. As of September 30, 2014, this loan arrangement had an outstanding balance of $80.2 million, of which $45.2 million was the Partnership's obligation. Teekay Corporation has indemnified the Partnership in respect of any losses and expenses arising from any breach by the co-obligor of the terms and conditions of the loan facility.

Obligations under the Partnership's credit facilities are secured by certain vessels, and if the Partnership is unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets. The Partnership has one revolving credit facility that requires it to maintain a vessel value to drawn principal balance ratio of a minimum of 105%. As at September 30, 2014, this ratio was 159.6%. The vessel value used in this ratio is the appraised value prepared by the Partnership based on second hand sale and purchase market data. Changes in the conventional tanker market could negatively affect this ratio.

As at September 30, 2014, the Partnership and Teekay Corporation were in compliance with all covenants related to the credit facilities and long-term debt.

7. Restructuring Charge

During the nine months ended September 30, 2014, the Partnership recorded a restructuring charge reimbursement of $0.8 million for the reorganization of the Partnership's shuttle tanker marine operations, which was completed during 2013. During the nine months ended

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

September 30, 2014, the Partnership incurred $0.6 million of restructuring charges related to the reflagging of one shuttle tanker which commenced in January 2014 and was completed in March 2014.

During the nine months ended September 30, 2013, the Partnership recognized restructuring charges of $1.6 million relating to the reorganization of the Partnership's shuttle tanker marine operations, and restructuring charges of $0.4 million relating to the reorganization of the Partnership's conventional tanker marine operations. The purpose of the restructuring was to create better alignment with the Partnership's marine operations resulting in a lower cost organization going forward. Both reorganizations were completed by June 30, 2013. Under these plans, the Partnership recorded restructuring charges of $2.0 million and $0.9 million, respectively, in total since these plans began in 2012.

During the three and nine months ended September 30, 2013, the Partnership incurred $0.4 million of restructuring charges related to the reflagging of one shuttle tanker which commenced in September 2013 and was completed in October 2013.

As of September 30, 2014, restructuring liabilities of $0.2 million were recorded in accrued liabilities on the consolidated balance sheet.

8. Related Party Transactions and Balances

a) During the three and nine months ended September 30, 2014, four conventional tankers, two shuttle tankers and two FSO units of the Partnership were employed on long-term time-charter-out contracts with subsidiaries of Teekay Corporation. During the first and second quarters of 2013, the Partnership terminated the long-term time-charter-out contracts under which two of its conventional tankers were employed with a subsidiary of Teekay Corporation. The Partnership received early termination fees from Teekay Corporation of $6.8 million and $4.5 million in the first and second quarters of 2013, respectively, which are recorded in discontinued operations (see note 14). Teekay Corporation and its wholly-owned subsidiaries provide substantially all of the Partnership's commercial, technical, crew training, strategic, business development and administrative service needs. In addition, the Partnership reimburses the General Partner for expenses incurred by the General Partner that are necessary or appropriate for the conduct of the Partnership's business. Such related party transactions were as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	$	$	$	$
Revenues[(1)]	15,561	16,844	49,318	54,229
Vessel operating expenses[(2)]	(8,974)	(10,242)	(28,804)	(29,920)
General and administrative[(3) (4)]	(9,656)	(8,894)	(28,196)	(22,392)
Interest income[(5)]	-	-	-	1,217
Interest expense[(6)]	(113)	(113)	(336)	(337)
Other expense[(7)]	-	(109)	-	(319)
Net income from related party transactions from discontinued operations[(8)]	-	-	-	19,255

(1) Includes revenue from long-term time-charter-out contracts and short-term time-charter-out contracts with subsidiaries or affiliates of Teekay Corporation, including management fees from ship management services provided by the Partnership to a subsidiary of Teekay Corporation.

(2) Includes ship management and crew training services provided by Teekay Corporation.

(3) Includes commercial, technical, strategic, business development and administrative management fees charged by Teekay Corporation and reimbursements to Teekay Corporation and our General Partner for costs incurred on the Partnership's behalf.

(4) Includes a $1.6 million business development fee to Teekay Corporation for assistance with the acquisition of ALP during the nine months ended September 30, 2014, and a $1.0 million business development fee to Teekay Corporation for assistance with the acquisition of the 2010-built HiLoad Dynamic Positioning unit from Remora AS during the three and nine months ended September 30, 2013.

(5) Interest income for the nine months ended September 30, 2013 related to the interest received from Teekay Corporation and our General Partner on a $150 million partial prepayment for the *Voyageur Spirit*. The Partnership received interest at a rate of LIBOR plus a margin of 4.25% on the prepaid funds to Teekay Corporation from February 26, 2013 until the Partnership acquired the FPSO unit on May 2, 2013.

(6) Guarantee fee related to the final bullet payment of the *Piranema Spirit* FPSO debt facility guaranteed by Teekay Corporation.

(7) Unrealized loss from the change in fair value of the Partnership's contingent consideration liability relating to the acquisition of the *Scott Spirit*.

(8) Related party transactions relating to three conventional tankers determined to be discontinued operations. This includes revenue from long-term time-charter-out contracts with subsidiaries or affiliates of Teekay Corporation, including the early termination fee described above, and crew training, commercial, technical, strategic and business development management fees charged by Teekay Corporation.

b) At September 30, 2014, due from affiliates totaled $53.6 million (December 31, 2013 - $15.2 million) and due to affiliates totaled $46.7 million (December 31, 2013 - $121.9 million). Due to and from affiliates are non-interest bearing and unsecured, and are expected to be settled within the next fiscal year in the normal course of operations.

c) On May 2, 2013, the Partnership acquired from Teekay Corporation its 100% interest in Voyageur LLC, which owns the *Voyageur Spirit* FPSO unit, which operates on the Huntington Field in the North Sea under a five-year contract, plus up to 10 one-year extension options, with E.ON, for an original purchase price of $540.0 million. However, due to a defect encountered in one of its two gas compressor, the FPSO unit was unable to achieve final acceptance within the allowable timeframe, resulting in the FPSO unit being declared off-hire by the charterer retroactive to April 13, 2013.

On September 30, 2013, the Partnership entered into an interim agreement with E.ON whereby the Partnership was compensated for production beginning August 27, 2013 until the receipt of final acceptance by E.ON. Until declared on hire, Teekay Corporation agreed to indemnify the Partnership for certain production shortfalls and unreimbursed vessel operating expenses. For the period from April 13, 2013 to December 31, 2013, Teekay Corporation has indemnified the Partnership a total of $34.9 million for production shortfalls and unreimbursed repair costs. For the first quarter of 2014, Teekay Corporation indemnified the Partnership for $3.1 million and $0.4 million for production shortfalls and unrecovered repair costs to address the compressor issues, respectively. On April 4, 2014, the Partnership received the certificate of final acceptance from the charterer, which declared the unit on-hire retroactive to February 22, 2014.

Amounts paid as indemnification from Teekay Corporation to the Partnership were effectively treated as a reduction in the purchase price. The original purchase price of $540.0 million of the *Voyageur Spirit* FPSO unit has effectively been reduced to $505.8 million ($275.8 million net of assumed debt of $230.0 million) to reflect total indemnification payments from Teekay Corporation of $38.4 million relating to the period from the date of first oil on April 13, 2013 to when the unit was declared on-hire on February 22, 2014, partially offset by the excess value of $4.3 million relating to the 1.4 million common units issued to Teekay Corporation on the date of closing of the transaction in May 2013 compared to the date Teekay Corporation offered to sell the unit to the Partnership. The excess of the purchase price (net of assumed debt) over the book value of the net assets of $201.8 million has been accounted for as an equity distribution to Teekay Corporation of $74.1 million.

d) On June 10, 2013, the Partnership acquired Teekay Corporation's 50% interest in OOG-TKP FPSO GmbH & Co KG, a joint venture with Odebrecht Oil & Gas S.A (*Odebrecht*), which owns the *Itajai* FPSO unit, for a purchase price of $53.8 million, which was paid in cash. The Partnership's investment in the *Itajai* FPSO unit is accounted for using the equity method. The *Itajai* FPSO unit achieved first oil in February 2013, at which time the unit commenced operations under a nine-year, fixed-rate time-charter contract with Petroleo Brasileiro SA (*Petrobras*), with six additional one-year extension options exercisable by Petrobras.

The purchase price was based on an estimate of the fully built-up cost of the *Itajai* FPSO unit, including certain outstanding contractual items. During the second quarter of 2014, the joint venture received in connection with the resolution of these contractual items, an aggregate of $6.1 million in reimbursements from the charterer and insurer, which was originally deducted from the Partnership's purchase price of the *Itajai* FPSO unit. As a result of these reimbursements, this amount was returned to Teekay Corporation.

e) During the first quarter of 2014, the long-term bareboat contracts employed by two conventional tankers of the Partnership with a joint venture in which Teekay Corporation has a 50% interest were novated under the same terms to a subsidiary of Teekay Corporation. The excess of the contractual rates over the market rates at the time of the novation, was $0.3 million and $0.7 million for the three and nine months ended September 30, 2014, respectively, and is accounted for as an equity contribution from Teekay Corporation.

9. Derivative Instruments and Hedging Activities

The Partnership uses derivatives to manage certain risks in accordance with its overall risk management policies.

Foreign Exchange Risk

The Partnership economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts. The Partnership has not designated, for accounting purposes, any of the foreign currency forward contracts held during the three and nine months ended September 30, 2014 as cash flow hedges.

As at September 30, 2014, the Partnership was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (thousands)	Fair Value / Carrying Amount of Asset (Liability) (in thousands of U.S. Dollars) Non-hedge	Average Forward Rate[(1)]	Expected Maturity 2014 (in thousands of U.S. Dollars)	2015	2016
Norwegian Kroner	430,000	(2,458)	6.24	14,948	48,553	5,408

(1) Average forward rate represents the contracted amount of foreign currency one U.S. Dollar will buy.

The Partnership enters into cross currency swaps and pursuant to these swaps the Partnership receives the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal at maturity of the Partnership's Norwegian Kroner Bonds due through 2019. In addition, the cross currency swaps due from 2016 through 2019 economically hedge the interest rate exposure on the Norwegian Kroner Bonds due in 2016 through 2019. The Partnership has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its Norwegian Kroner Bonds due through 2019. As at September 30, 2014, the Partnership was committed to the following cross currency swaps:

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

Principal Amount NOK	Principal Amount USD	Floating Rate Receivable Reference Rate	Floating Rate Receivable Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Asset (Liability)	Remaining Term (years)
600,000	101,351	NIBOR	5.75%	7.49%	(10,485)	2.3
500,000	89,710	NIBOR	4.00%	4.80%	(12,568)	1.3
800,000	143,536	NIBOR	4.75%	5.93%	(19,501)	3.3
1,000,000	162,200	NIBOR	4.25%	6.28%	(8,738)	4.3
					(51,292)	

Interest Rate Risk

The Partnership enters into interest rate swaps, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Partnership's exposure to interest rate variability on its outstanding floating-rate debt. The Partnership has not designated, for accounting purposes, its interest rate swaps as cash flow hedges of its U.S. Dollar LIBOR-denominated borrowings.

As at September 30, 2014, the Partnership was committed to the following interest rate swap agreements:

	Interest Rate Index	Notional Amount $	Fair Value / Carrying Amount of Assets (Liability) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%)[1]
U.S. Dollar-denominated interest rate swaps [2]	LIBOR	800,000	(135,107)	8.4	4.7
U.S. Dollar-denominated interest rate swaps [3]	LIBOR	797,362	(41,053)	5.8	2.5
U.S. Dollar-denominated interest rate swaps [4]	LIBOR	180,000	(3,718)	0.1	3.4
		1,777,362	(179,878)		

(1) Excludes the margin the Partnership pays on its variable-rate debt, which as at September 30, 2014, ranged between 0.3% and 3.25%.

(2) Notional amount remains constant over the term of the swap.

(3) Principal amount reduces quarterly or semi-annually.

(4) This interest rate swap is being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2016 to 2028. The interest rate swap is subject to mandatory early termination in late-2014 whereby the swap will be settled based on its fair value at that time.

As at September 30, 2014, the Partnership had multiple interest rate swaps and cross currency swaps governed by the same master agreement. Each of these master agreements provides for the net settlement of all swaps subject to that master agreement through a single payment in the event of default or termination of any one swap. The fair value of these interest rate swaps are presented on a gross basis in the Partnership's consolidated balance sheets. As at September 30, 2014, these interest rate swaps and cross currency swaps had an aggregate fair value asset amount of $1.5 million and an aggregate fair value liability amount of $200.5 million.

Tabular disclosure

The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Partnership's balance sheets.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

	Accounts Receivable $	Current Portion of Derivative Assets $	Derivative Assets $	Accrued Liabilities $	Current Portion of Derivative Liabilities $	Derivative Liabilities $
As at September 30, 2014						
Foreign currency contracts	-	-	-	-	(1,984)	(474)
Cross currency swaps	-	17	-	(349)	(2,156)	(48,804)
Interest rate swaps	-	-	7,926	(7,757)	(58,966)	(121,081)
	-	17	7,926	(8,106)	(63,106)	(170,359)
As at December 31, 2013						
Foreign currency contracts	-	213	4	-	(976)	(83)
Cross currency swaps	12	287	-	-	(311)	(25,421)
Interest rate swaps	-	-	10,319	(9,174)	(46,657)	(95,631)
	12	500	10,323	(9,174)	(47,944)	(121,135)

Realized and unrealized (losses) gains of interest rate swaps and foreign currency forward contracts that are not designated for accounting purposes as cash flow hedges are recognized in earnings and reported in realized and unrealized losses on derivative instruments in the consolidated statements of income (loss). The effect of the (losses) gains on these derivatives on the consolidated statements of income (loss) is as follows:

	Three Months Ended September 30, 2014 $	Three Months Ended September 30, 2013 $	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Realized (losses) gains relating to:				
Interest rate swap termination	-	(31,798)	-	(31,798)
Interest rate swaps	(13,799)	(14,354)	(41,859)	(48,032)
Foreign currency forward contracts	(278)	722	(581)	(571)
	(14,077)	(45,430)	(42,440)	(80,401)
Unrealized gains (losses) relating to:				
Interest rate swaps	6,940	36,513	(40,152)	108,415
Foreign currency forward contracts	(2,295)	965	(1,616)	(3,142)
	4,645	37,478	(41,768)	105,273
Total realized and unrealized (losses) gains on derivative instruments	(9,432)	(7,952)	(84,208)	24,872

Realized and unrealized (losses) gains of the cross currency swaps are recognized in earnings and reported, including the impact of the partial termination of a cross currency swap in connection with the repurchase of bonds described in note 6, in foreign currency exchange loss in the consolidated statements of income (loss). The effect of the loss on cross currency swaps on the consolidated statements of income (loss) is as follows:

	Three Months Ended September 30, 2014 $	Three Months Ended September 30, 2013 $	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Realized gain on partial termination of cross-currency swap	-	-	-	6,800
Realized (losses) gains	(497)	331	(519)	1,353
Unrealized (losses) gains	(18,806)	747	(25,498)	(34,062)
Total realized and unrealized (losses) gains on cross-currency swaps	(19,303)	1,078	(26,017)	(25,909)

The Partnership is exposed to credit loss in the event of non-performance by the counterparties, all of which are financial institutions, to the foreign currency forward contracts and the interest rate swap agreements. In order to minimize counterparty risk, the Partnership only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

10. Income Tax

The components of the provision for income tax are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	$	$	$	$
Current	(358)	(193)	(2,026)	(477)
Deferred	(1,110)	86	(887)	148
Income tax expense	(1,468)	(107)	(2,913)	(329)

11. Commitments and Contingencies

a) On November 13, 2006, one of the Partnership's shuttle tankers, the *Navion Hispania*, collided with the *Njord Bravo*, an FSO unit, while preparing to load an oil cargo from the *Njord Bravo*. The *Njord Bravo* services the Njord field, which is operated by Statoil Petroleum AS (or *Statoil*) and is located off the Norwegian coast. At the time of the incident, Statoil was chartering the *Navion Hispania* from the Partnership. The *Navion Hispania* and the *Njord Bravo* both incurred damage as a result of the collision. In November 2007, Navion Offshore Loading AS (or *NOL*) and Teekay Navion Offshore Loading Pte Ltd. (or *TNOL*), subsidiaries of the Partnership, and Teekay Shipping Norway AS (or *TSN*), a subsidiary of Teekay Corporation, were named as co-defendants in a legal action filed by Norwegian Hull Club (the hull and machinery insurers of the *Njord Bravo*), several other insurance underwriters and various licensees in the Njord field. The Plaintiffs sought damages for vessel repairs, expenses for a replacement vessel and other amounts related to production stoppage on the field, totaling NOK 213,000,000 (approximately $33.1 million).

   The appellate court in June 2013 held that NOL, TNOL and TSN are jointly and severally responsible towards the Plaintiffs for all the losses as a result of the collision, plus interests accrued on the amount of damages. In addition, Statoil ASA was held not to be under an obligation to indemnify NOL, TNOL and TSN for the losses. NOL, TNOL and TSN were also held liable for legal costs associated with court proceedings. As a result of this judgment, in the second quarter of 2013, the Partnership recognized a liability in the amount of NOK 213,000,000 in respect of damages, NOK 66,000,000 in respect of interest and NOK 11,000,000 in respect of legal costs, totaling NOK 290,000,000 (approximately $45.1 million), to the Plaintiffs recorded in accrued liabilities. In the fourth quarter of 2013, the Partnership recognized an additional liability of NOK 4,000,000 in respect of interest, bringing the total liability to NOK 294,000,000 (approximately $45.8 million). The judgment rendered deals with liability only and the ultimate amount of damages may be reduced compared to the NOK 213,000,000 claimed by the Plaintiffs.

   The Partnership and Teekay Corporation maintain protection and indemnity insurance for damages to the *Navion Hispania* and insurance for collision-related costs and claims. These insurance policies are expected to cover the costs related to this incident, including any costs not indemnified by Statoil, and thus a receivable of NOK 294,000,000 (approximately $45.8 million) was concurrently recorded in accounts receivable, which equals the total cost of the claim. In addition, Teekay Corporation has agreed to indemnify the Partnership for any losses it may incur in connection with this incident.

   In the fourth quarter of 2013, the insurer made payments directly to the Plaintiffs in full settlement of interest and partial settlement of legal costs and thus the Partnership, as at December 31, 2013, reduced its liability and related receivable to NOK 213,000,000 in respect of damages and approximately NOK 3,400,000 in respect of legal costs, totaling approximately NOK 216,400,000 (approximately $33.7 million). No further payments were made during the first nine months of 2014. Subsequent to September 30, 2014, the Partnership and the insurer entered into a settlement agreement with the Plaintiffs, which reduced the Partnership's liability and related receivable to NOK 117,500,000 (approximately $18.3 million). The payment of the settlement by the insurer was made during November 2014.

b) During 2010, an unrelated party contributed a 1995-built shuttle tanker, the *Randgrid*, to a subsidiary of the Partnership for a 33% equity interest in the subsidiary. The non-controlling interest owner in the subsidiary holds a put option which, if exercised, would obligate the Partnership to purchase the non-controlling interest owner's 33% share in the entity for cash in accordance with a defined formula. The redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at September 30, 2014.

c) In May 2013, the Partnership entered into an agreement with Statoil, on behalf of the field license partners, to provide an FSO unit for the Gina Krog oil and gas field located in the North Sea. The contract will be serviced by a new FSO unit that will be converted from the *Randgrid* shuttle tanker, which the Partnership currently owns through a 67% owned subsidiary and intends to acquire full ownership of the vessel prior to its conversion. The FSO conversion project is expected to cost approximately $280 million, including amounts reimbursable upon delivery of the unit relating to installation and mobilization, and the cost of acquiring the remaining 33% ownership interest in the *Randgrid* shuttle tanker. As at September 30, 2014, payments made towards this commitment totaled $44.3 million and the remaining payments required to be made are $18.3 million (balance of 2014), $102.5 million (2015) and $114.7 million (2016). Following scheduled completion in early-2017, the newly converted FSO unit will commence operations under a three-year time-charter contract to Statoil, which includes 12 additional one-year extension options.

d) In March 2014, the Partnership acquired 100% of the shares of ALP, a Netherlands-based provider of long-haul ocean towage and offshore installation services to the global offshore oil and gas industry. Concurrently with this transaction, the Partnership and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four state-of-the-art SX-157 Ulstein Design ultra-long distance towing and anchor handling vessel newbuildings. These vessels will be equipped with dynamic positioning capability and are scheduled for delivery in 2016. The Partnership is committed to acquire these newbuildings for a total cost of approximately $258 million. As at September 30, 2014, payments made towards these commitments totaled $53.3 million and the remaining payments required to be made under these newbuilding contracts are $9.4 million (balance of 2014), $73.1 million (2015) and $122.6 million (2016). The Partnership intends to continue financing the newbuilding installments through its existing liquidity and expects to secure long-term debt financing for these vessels prior to their scheduled deliveries in 2016.

e) In August 2014, the Partnership acquired 100% of the outstanding shares of Logitel Offshore Holding AS, a Norway-based company focused on the high-end floating accommodation market. Concurrently with this transaction, the Partnership acquired three FAU newbuildings ordered from COSCO (Nantong) Shipyard (*COSCO*) in China for a total cost of approximately $553 million, including estimated site supervision costs and license fees to be paid to Sevan to allow for use of its cylindrical hull design in these FAUs. As at September 30, 2014, payments made towards these commitments totaled $26.8 million and the remaining payments required to be made under these newbuilding contracts are $341.0 million (2015), $183.3 million (2016) and $1.9 million (2017). The Partnership intends to finance the initial newbuilding payments through its existing liquidity and expects to secure long-term debt financing for the units prior to their scheduled deliveries.

12. Total Capital and Net Income Per Common Unit

At September 30, 2014, a total of 72.2% of the Partnership's common units outstanding were held by the public. The remaining common units, as well as the 2% general partner interest, were held by a subsidiary of Teekay Corporation. All of the Partnership's Series A Preferred Units (defined below) outstanding are held by the public.

In 2013, the Partnership implemented a continuous offering program (or *COP*) under which the Partnership may issue new common units, representing limited partner interests, at market prices up to a maximum aggregate amount of $100 million. For the nine months ended September 30, 2014 and 2013, the Partnership sold an aggregate of 213,350 and 85,508 common units, respectively, under the COP, generating proceeds of approximately $7.6 million and $2.4 million, respectively (including the General Partner's 2% proportionate capital contribution of $0.2 million and $0.1 million, respectively, and net of approximately $0.2 million and $0.4 million, respectively, of offering costs). The net proceeds from the issuance of these common units were used for general partnership purposes.

Net Income Per Common Unit

Limited partners' interest in net income per common unit – basic is determined by dividing net income, after deducting the non-controlling interests and the General Partner's interest and the distributions on the Series A Preferred Units (defined below), by the weighted-average number of common units outstanding during the period. The accumulated distributions on the preferred units for the three and nine months ended September 30, 2014 were $2.7 million and $8.2 million, respectively, and $2.7 million and $4.5 million for the three and nine months ended September 30, 2013. The computation of limited partners' interest in net income per common unit – diluted assumes the exercise of all dilutive restricted units using the treasury stock method. The computation of limited partners' interest in net loss per common unit – diluted does not assume such exercises as the effect would be anti-dilutive.

The General Partner's and common unitholders' interests in net income are calculated as if all net income was distributed according to the terms of the Partnership's partnership agreement, regardless of whether those earnings would or could be distributed. The partnership agreement does not provide for the distribution of net income; rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter less the amount of cash reserves established by the Partnership's board of directors to provide for the proper conduct of the Partnership's business, including reserves for maintenance and replacement capital expenditure and anticipated capital requirements and any accumulated distributions on the Series A Preferred Units (defined below). Unlike available cash, net income is affected by non-cash items such as depreciation and amortization, unrealized gains and losses on derivative instruments and unrealized foreign currency translation gains and losses.

The Partnership allocates the limited partners' interest in net income, including both distributed and undistributed net income, between continuing operations and discontinued operations based on the proportion of net loss from continuing and discontinued operations to total net income.

During the quarters ended September 30, 2014 and 2013, cash distributions exceeded $0.4025 per common unit and, consequently, the assumed distributions of net income (loss) resulted in the use of the increasing percentages to calculate the General Partner's interest in net income (loss) for the purposes of the net income (loss) per common unit calculation. For more information on the increasing percentages to calculate the General Partner's interest in net income (loss), please refer to the Partnership's Annual Report on Form 20-F for the year ended December 31, 2013.

Pursuant to the partnership agreement, allocations to partners are made on a quarterly basis.

Preferred Units

In April 2013, the Partnership issued 6.0 million of its 7.25% Series A Cumulative Redeemable Preferred Units (or *Series A Preferred Units*) in a public offering for net proceeds of $144.9 million.

Pursuant to the partnership agreement, distributions on the Series A Preferred Units to preferred unitholders are cumulative from the date of original issue and are payable quarterly in arrears, when, as and if declared by the board of directors of the General Partner. At any time on or after April 30, 2018, the Series A Preferred Units may be redeemed by the Partnership at a redemption price of $25.00 per unit plus an amount equal to all accumulated and unpaid distributions to the date of redemption. These units are listed on the New York Stock Exchange.

13. Unit Based Compensation

During the nine months ended September 30, 2014, a total of 9,482 common units, with an aggregate value of $0.3 million, were granted and issued to the non-management directors of the General Partner as part of their annual compensation for 2014.

The Partnership grants restricted unit awards as incentive-based compensation to certain employees of Teekay Corporation's subsidiaries that provide services to the Partnership. During March 2014 and 2013, the Partnership granted 68,153 and 63,309 restricted units, respectively, with fair values of $2.1 million and $1.8 million, respectively, based on the Partnership's closing unit price on the grant date. Each restricted unit is equal in value to one of the Partnership's common units plus reinvested distributions from the grant date to the vesting date. The restricted units vest equally over three years from the grant date. Any portion of a restricted unit award that is not vested on the date of a recipient's termination of service is cancelled, unless their termination arises as a result of the recipient's retirement and, in this case, the restricted unit awarded will continue to vest in according with the vesting schedule. Upon vesting, the value of the restricted units is paid to each grantee in the form of common units or cash. During the nine months ended September 30, 2014, a total of 63,327 restricted stock units with a fair value of $1.9 million, based on the Partnership's closing unit price on the grant date, vested and the amount paid to the grantees was made by issuing 6,584 common units and by paying $0.3 million in cash. During the nine months ended September 2013, a total of 6,742 restricted stock units with a fair value of $0.2 million, based on the Partnership's closing unit price on the grant date, vested. During the three and nine months ended September 30, 2014 and 2013, the Partnership recorded unit based compensation expense of $0.1 million and $1.9 million, and $0.2 million and $0.7 million, respectively, in general and administrative expenses in the Partnership's consolidated statements of income (loss). As of September 30, 2014 and 2013, liabilities relating to cash settled restricted unit awards of $1.1 million and $nil, respectively, were recorded in accrued liabilities on the Partnership's consolidated balance sheets.

14. Write-down of vessels, Vessel held for sale and Discontinued operations

Write-down of vessels

In the third quarter of 2014, the carrying value of one of the Partnership's 1990s-built shuttle tankers was written down to its estimated fair value, using an appraised value. The write-down was the result of the vessel charter contract expiring in late-2014 and is expected to be re-chartered at a much lower rate. The Partnership's consolidated statement of income (loss) for the three and nine months ended September 30, 2014, includes a $4.8 million write-down related to this vessel. The write-down is included in the Partnership's shuttle tanker segment.

In the third quarter of 2013, the carrying value of four of the Partnership's 1990s-built shuttle tankers were written down to their estimated fair value, using an appraised value. The write-downs were the result of the re-contracting of one of the vessels at lower rates than expected during the third quarter of 2013, the cancellation of a short-term contract which occurred in September 2013 and a change in expectations for the contract renewal for two of the shuttle tankers, one currently operating in Brazil, and the other in the North Sea. The Partnership's consolidated statement of income (loss) for the three and nine months ended September 30, 2013, includes a $57.5 million write-down related to these vessels of which $37.2 million relates to two shuttle tankers which the Partnership owns through a 50%-owned subsidiary. The write-down is included in the Partnership's shuttle tanker segment.

Vessel held for sale

In the third quarter of 2014, the Partnership classified a shuttle tanker, the *Navion Norvegia*, as held for sale, as a result of the expected sale of the vessel to a joint venture held between the Partnership and a joint venture partner. The sale is expected to occur during the fourth quarter of 2014. As at September 30, 2014, the expected net proceeds from the sale of the vessel exceed the carrying value of the vessel and as such, the Partnership has not adjusted the value of the vessel (see note 16a).

Discontinued Operations

Prior to being considered discontinued operations, the operations of the *Leyte Spirit*, the *Poul Spirit* and the *Gotland Spirit* were reported within the conventional tanker segment. The *Leyte Spirit*, which was written down in 2012, was sold in the first quarter of 2013. In the first and second quarters of 2013, the *Poul Spirit* and the *Gotland Spirit*, respectively, were written down to their estimated fair values in conjunction with the termination of their long-term time-charter-out contracts with a subsidiary of Teekay Corporation. The Partnership received early termination fees of $4.5 million and $6.8 million from Teekay Corporation in the second quarter and first quarter of 2013, respectively, which are recorded in discontinued operations. The *Poul Spirit* was further written down upon sale in the second quarter of 2013 and a gain was recognized upon the sale of the *Gotland Spirit* in the third quarter of 2013. The estimated fair value for each of the three vessels was determined using appraised values. The following table summarizes the net loss from discontinued operations related to these three vessels for the period presented in the consolidated statements of income (loss):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	$	$
Revenue	478	20,238
Voyage expenses	(445)	(682)
Vessel operating expenses	(805)	(3,903)
Depreciation and amortization	-	(1,236)
General and administrative	(105)	(479)
Write-down and gain (loss) on sale of vessels	564	(18,465)
Loss from vessel operations	(313)	(4,527)
Interest expense	(21)	(110)
Foreign currency exchange loss	-	(4)
Other expense - net	1	(1)
Net loss from discontinued operations	(333)	(4,642)

15. Acquisitions

a) Acquisition of ALP Maritime Services B.V.

On March 14, 2014, the Partnership acquired 100% of the shares of ALP. Concurrently with this transaction, the Partnership and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four state-of-the-art SX-157 Ulstein Design ultra-long distance towing and anchor handling vessel newbuildings. These vessels will be equipped with dynamic positioning capability and are scheduled for delivery in 2016. The Partnership is committed to acquire these newbuildings for a total cost of approximately $258 million (see note 11d).

The Partnership acquired ALP for a purchase price of $2.6 million, which was paid in cash, and also entered into an arrangement to pay additional compensation to three former shareholders of ALP if certain requirements are satisfied. This contingent compensation consists of $2.4 million, which is payable upon the delivery and employment of ALP's four newbuildings scheduled throughout 2016, and a further amount of up to $2.6 million, which is payable if ALP's annual operating results from 2017 to 2021 meet certain targets. The Partnership has the option to pay up to 50% of this compensation through the issuance of common units of the Partnership. Each of the contingent compensation amounts are payable only if the three shareholders are employed by ALP at the time performance conditions are met. For the three and nine months ended September 30, 2014, compensation costs were $0.2 million and $0.4 million, respectively, and were recorded under general and administrative expenses in the Partnership's consolidated statements of income (loss). The Partnership also incurred a $1.0 million fee to a third party associated with the acquisition and a $1.6 million business development fee to Teekay Corporation (see note 8a) for assistance with the acquisition which have been recognized in general and administrative expenses during the first and second quarters of 2014, respectively.

This acquisition of ALP and the related newbuilding orders represent the Partnership's entrance into the long-haul ocean towage and offshore installation services business. This acquisition allows the Partnership to combine its infrastructure and access to capital with ALP's experienced management team to further grow this niche business, which is in an adjacent sector to the Partnership's FPSO and shuttle tanker businesses. The acquisition of ALP was accounted for using the purchase method of accounting, based upon preliminary estimates of fair value.

The following table summarizes the preliminary estimates of fair values of the ALP assets acquired and liabilities assumed by the Partnership on the acquisition date.

(in thousands of U.S. dollars)	As at March 14, 2014
	$
ASSETS	
Cash and cash equivalents	294
Other current assets	404
Advances on newbuilding contracts	164
Other assets - long-term	395
Goodwill (towage segment)	2,032
Total assets acquired	3,289
LIABILITIES	
Current liabilities	387
Other long-term liabilities	286
Total liabilities assumed	673
Net assets acquired	2,616
Consideration	2,616

The goodwill recognized in connection with the ALP acquisition is attributable primarily to the assembled workforce of ALP, including their experience, skills and abilities. Operating results of ALP are reflected in the Partnership's financial statements commencing March 14, 2014, the effective date of acquisition. For the nine months ended September 30, 2014, the Partnership recognized $0.4 million of revenue and $1.8 million of net loss, respectively, resulting from this acquisition. The following table shows comparative summarized consolidated pro forma financial information for the Partnership for the nine months ended September 30, 2014 and 2013, giving effect to the Partnership's acquisition of ALP as if it had taken place on January 1, 2013:

(in thousands of U.S dollars, except per unit data)	**Pro Forma Nine Months ended September 30, 2014 $**	**Pro Forma Nine Months ended September 30, 2013 $**
Revenues	759,213	677,451
Net income from continuing operations	35,205	40,707
Limited partners' interest in net income from continuing operations per common unit:		
- Basic	0.12	0.51
- Diluted	0.12	0.51

b) Acquisition of Logitel Offshore Holding AS

On August 11, 2014, the Partnership acquired 100% of the outstanding shares of Logitel. The purchase price for the shares of Logitel consisted of $4.0 million in cash paid at closing and a potential additional cash amount of $27.6 million, subject to reductions of some or all of this potential additional amount if certain performance criteria are not met, primarily relating to the construction of the three FAUs ordered from COSCO in China (see note 4a).

The Partnership is committed to acquire the three FAUs ordered from COSCO for a total cost of approximately $583 million, including estimated site supervision costs and license fees to be paid to Sevan to allow for use of its cylindrical hull design in these FAUs (see note 11e), and $30.0 million from the Partnership's assumption of Logitel's obligations under a bond agreement from Sevan. Two of the FAUs are currently under construction and in August 2014, the Partnership exercised one of its existing six options with COSCO to construct a third FAU. Prior to the acquisition, Logitel secured a three-year fixed-rate charter contract, plus extension options, with Petrobras in Brazil for the first FAU which is scheduled to deliver in the first quarter of 2015. The Partnership expects to secure charter contracts for the remaining two newbuilding FAUs prior to their respective scheduled deliveries in the fourth quarter of 2015 and the fourth quarter of 2016.

The Partnership has assumed Logitel's obligations under a bond agreement from Sevan as part of this acquisition. The bond is non-interest bearing and is repayable in amounts of $10.0 million within six months of delivery of each of three FAUs ordered from COSCO, for a total of $30.0 million. If Logitel orders additional FAU's with the Sevan cylindrical design, Logitel will be required to pay Sevan up to $11.9 million for each of the next three FAUs ordered. If the fourth of six options with COSCO is not exercised by its option expiry date on November 30, 2016, Sevan has a one-time option to receive the remaining two options with COSCO.

The acquisition of Logitel represents the Partnership's entrance into the FAU business, which is in an adjacent sector to the Partnership's FPSO and shuttle tanker businesses. The acquisition of Logitel was accounted for using the purchase method of accounting, based upon preliminary estimates of fair value.

The following table summarizes the preliminary estimates of fair values of the Logitel assets acquired and liabilities assumed by the Partnership on the acquisition date.

(in thousands of U.S. dollars)	**As at August 11, 2014 $**
ASSETS	
Cash and cash equivalents	8,089
Prepaid expenses	640
Advances on newbuilding contracts	46,809
Total assets acquired	55,538
LIABILITIES	
Accrued liabilities	4,098
Long-term debt	26,270
Total liabilities assumed	30,368
Net assets acquired	25,170
Cash consideration	4,000
Contingent consideration	21,170

Operating results of Logitel are reflected in the Partnership's financial statements commencing August 11, 2014, the effective date of acquisition. For the nine months ended September 30, 2014, the Partnership recognized $nil revenue and $0.6 million of net loss resulting from this acquisition. The following table shows comparative summarized consolidated pro forma financial information for the Partnership for the nine months ended September 30, 2014 and 2013, giving effect to the Partnership's acquisition of Logitel as if it had taken place on January 1, 2013:

(in thousands of U.S dollars, except per unit data)	**Pro Forma Nine Months ended September 30, 2014 $**	**Pro Forma Nine Months ended September 30, 2013 $**
Revenues	759,078	670,085
Net income from continuing operations	34,427	40,508
Limited partners' interest in net income from continuing operations per common unit:		
- Basic	0.11	0.51
- Diluted	0.11	0.51

16. Subsequent events

a) In October 2014, the Partnership, through its 50/50 joint venture with Odebrecht, signed a letter of intent with Petrobras to provide an FPSO unit for the Libra field located in the Santos Basin offshore Brazil. The contract, which is expected to be finalized in the fourth quarter of 2014, will be serviced by a new FPSO unit converted from the Partnership's 1995-built shuttle tanker, the *Navion Norvegia.* The conversion project will be completed at Sembcorp Marine's Jurong Shipyard in Singapore and is scheduled to commence operations in early-2017 under a 12-year firm period fixed-rate contract with Petrobras. The FPSO conversion is expected to be completed for a total fully built-up cost of approximately $1 billion.

b) In October 2014, the Partnership, through its wholly-owned subsidiary ALP, agreed to acquire six modern on-the-water long-distance towing and anchor handling vessels for approximately $220 million. The Partnership expects to take delivery of the six vessels during the fourth quarter of 2014 and the first quarter of 2015. The acquisition remains subject to customary closing conditions, including the completion of vessel inspections and documentation.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are an international provider of marine transportation, oil production, storage services and floating accommodation to the offshore oil industry focusing on the fast-growing, deep-water offshore oil regions of the North Sea and Brazil. We operate shuttle tankers, floating production, storage and off-loading (or *FPSO*) units, floating storage and off-take (or *FSO*) units, and conventional crude oil tankers, and are in the process of building to operate towage tankers and floating accommodation units (*FAU*s). As at September 30, 2014, our fleet consists of 35 shuttle tankers (including two chartered-in vessels, one HiLoad Dynamic Positioning (or *DP*) unit scheduled to complete operational testing in 2015 and one shuttle tanker which is to be converted to an FPSO unit), five FPSO units, six FSO units, and four conventional oil tankers, in which our interests range from 50% to 100%. In addition, we have four long-haul towing and anchor handling vessel newbuildings scheduled for delivery in 2016 and three FAU newbuildings scheduled for delivery in 2015 and 2016.

SIGNIFICANT DEVELOPMENTS

Libra FPSO Project

In October 2014, we, through our 50/50 joint venture with Odebrecht Oil & Gas S.A (*Odebrecht*), signed a letter of intent with Petroleo Brasileiro SA (*Petrobras*) to provide an FPSO unit for the Libra field located in the Santos Basin offshore Brazil. The contract, which is expected to be finalized in the fourth quarter of 2014, will be serviced by a new FPSO unit converted from our 1995-built shuttle tanker, the *Navion Norvegia.* The conversion project will be completed at Sembcorp Marine's Jurong Shipyard in Singapore and the FPSO unit is scheduled to commence operations in early-2017 under a 12-year firm period fixed-rate contract with Petrobras. The FPSO conversion is expected to be completed for a total fully built-up cost of approximately $1 billion.

Acquisition of Logitel

In August 2014, we acquired Logitel Offshore Holdings Ltd. (*Logitel*), a Norway-based company focused on the high-end floating accommodation market. Logitel is currently constructing three newbuilding FAUs, based on the Sevan Marine ASA cylindrical hull design, at the COSCO (Nantong) Shipyard (*COSCO*) in China for a fully built-up cost of approximately $583 million, including $30.0 million from our assumption of Logitel's obligations under a bond agreement from Sevan. We currently hold options to order up to an additional five FAUs. Prior to the acquisition, Logitel secured a three-year fixed-rate charter contract, plus extension options, with Petrobras in Brazil for the first FAU which is scheduled to deliver in the first quarter of 2015. We expect to secure charter contracts for the remaining two newbuilding FAUs prior to their respective scheduled deliveries in the fourth quarter of 2015 and the fourth quarter of 2016. We intend to finance the initial newbuilding payments through our existing liquidity and expect to secure long-term debt financing for the units prior to their scheduled deliveries. Please read Item 1 – Financial Statements: Note 15b – Acquisition of Logitel Offshore Holding AS.

Acquisition of ALP and Towage Vessels

In March 2014, we acquired ALP Maritime Services B.V. (or *ALP*), a Netherlands-based provider of long-haul ocean towage and offshore installation services to the global offshore oil and gas industry. ALP currently provides these services through a fleet of third-party owned vessels. As part of the transaction, we and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four state-of-the-art SX-157 Ulstein Design ultra-long distance towing and anchor handling vessel newbuildings, which will be equipped with dynamic positioning capability, for a fully built-up cost of approximately $260 million. These newbuildings will be capable of ultra-long distance towing and offshore unit installation and decommissioning of large floating exploration, production and storage units, including FPSO units, floating liquefied natural gas (or *FLNG*) units and floating drill rigs. We intend to continue financing the newbuilding installments through our existing liquidity and expect to secure long-term debt financing for these vessels prior to their scheduled deliveries in 2016. Please read Item 1 – Financial Statements: Note 15a – Acquisition of ALP Maritime Services B.V.

In October 2014, we, through our wholly-owned subsidiary ALP, agreed to acquire six modern on-the-water long-distance towing and anchor handling vessels for approximately $220 million. The vessels to be acquired were built between 2006 and 2010 and are all equipped with dynamic positioning (or *DP*) capabilities. We expect to take delivery of the six vessels during the fourth quarter of 2014 and the first quarter of 2015. Including these vessels, along with ALP's four state-of-the-art long-distance towing and anchor handling newbuildings scheduled to deliver in 2016, ALP will become the world's largest owner and operator of DP towing and anchor handling vessels. All ten vessels will be capable of long-distance towing and offshore unit installation and decommissioning of large floating exploration, production and storage units, including FPSO units, FLNG units and floating drill rigs. The acquisition remains subject to customary closing conditions, including the completion of vessel inspections and documentation.

This acquisition of ALP, related newbuilding orders and on the water assets represent our entrance into the long-haul ocean towage and offshore installation services business, which combines our infrastructure and access to capital with ALP's experienced management team to further grow this niche business that is a natural complement to our existing offshore business.

Shuttle Contracts

In December 2013, we were awarded a six-year shuttle tanker contract of affreightment, with extension options up to an additional four years, with BG Group plc, which will service the Knarr oil and gas field in the North Sea. The expected start date for the shuttle tanker contract of affreightment coincides with the expected start-up of the *Petrojarl Knarr* FPSO unit in the North Sea in the fourth quarter of 2014.

In September 2013, we acquired a 2010-built HiLoad DP unit from Remora AS (or *Remora*), a Norway-based offshore marine technology company, for a total purchase price of approximately $60 million, including modification and mobilization costs. The HiLoad DP unit continues to undergo operational testing, and related delays in commencement of operations may affect previously anticipated cash flow from the unit. Upon completion of the testing, the unit is expected to commence its time-charter contract with Petrobras in Brazil. Under the terms of an agreement between Remora and us, we have a right of first refusal to acquire any future HiLoad DP projects developed by Remora. In July 2013, Remora was awarded a contract by BG E&P Brasil Ltd. to perform a front-end engineering and design (*FEED*) study to develop the next generation of HiLoad DP units. The design, which is based on the main parameters of the first generation design, is expected to include new features, such as increased engine power and the capability to maneuver vessels larger than Suezmax conventional tankers.

***Voyageur Spirit* FPSO Acquisition**

On August 27, 2013, repairs to the defective gas compressor on the *Voyageur Spirit* FPSO unit were completed. Since that time, we have been receiving full rate under the charter contract as though the unit was producing at full capacity either directly from the charterer or through an indemnification arrangement with Teekay Corporation. On April 4, 2014, we received the certificate of final acceptance from the charterer of the *Voyageur Spirit* FPSO unit, E.ON Ruhrgas UK GP Limited (or *E.ON*), which declared the unit on-hire retroactive to February 22, 2014.

Up to February 22, 2014, we were indemnified by Teekay Corporation for certain lost revenues and certain unrecovered vessel operating expenses relating to the operation of the *Voyageur Spirit* FPSO unit. Any indemnification amounts paid to us by Teekay Corporation have been effectively treated as a reduction in the purchase price paid by us to Teekay Corporation for the *Voyageur Spirit* FPSO. During the first quarter of 2014, these indemnification payments effectively resulted in a $3.5 million reduction in the purchase price of the *Voyageur Spirit* FPSO. For the period from the date of first oil on April 13, 2013 to February 22, 2014, Teekay Corporation indemnified us for a total of $38.4 million relating to the *Voyageur Spirit* FPSO.

FSO Contracts

In July 2014, we completed the conversion of our 1993-built shuttle tanker, the *Navion Clipper*, into an FSO unit, now the *Suksan Salamander*, for an estimated fully built-up cost of approximately $75 million, including mobilization costs. In August 2014, the FSO unit commenced its ten-year charter contract plus extension options with Salamander Energy plc, in Asia.

In May 2014, we entered into a ten-year contract extension with Apache Energy for the *Dampier Spirit* FSO unit, which operates on the Stag oil field offshore Western Australia.

In May 2013, we entered into an agreement with Statoil Petroleum AS *(*or *Statoil*), on behalf of the field license partners, to provide an FSO unit for the Gina Krog oil and gas field located in the North Sea. The contract will be serviced by a new FSO unit that will be converted from the 1995-built shuttle tanker, the *Randgrid*, which we currently own through a 67%-owned subsidiary and will acquire full ownership of the vessel prior to its conversion. The FSO conversion project is expected to cost approximately $280 million, including amounts reimbursable upon delivery of the unit relating to installation and mobilization, and the cost of acquiring the remaining 33% ownership interest in the *Randgrid* shuttle tanker. Following scheduled completion in early-2017, the newly converted FSO unit will commence operations under a three-year time-charter contract to Statoil, which includes 12 additional one-year extension options.

Bond Issuances and COP Update

In 2013, we implemented a continuous offering program (*COP*) under which we may issue new common units, representing limited partner interests, at market prices up to a maximum aggregate amount of $100 million. Through the nine months ended September 30, 2014, we sold an aggregate of 213,350 common units under the COP, generating net proceeds of approximately $7.6 million (including our general partner's 2% proportionate capital contribution and net of offering costs). The net proceeds from the issuance of these common units were used for general partnership purposes.

In May 2014, we issued $300.0 million in new senior unsecured non-rated bonds in the United States which mature in January 2019. The bonds are listed on the New York Stock Exchange and bear interest at a fixed rate of 6.0%. We used the net proceeds of $293.5 million from the bond offering for general partnership purposes.

In January 2014, we issued in the Norwegian bond market NOK 1,000 million in senior unsecured bonds, maturing in January 2019. The bonds are listed on the Oslo Stock Exchange. The aggregate principal amount of the bonds was equivalent to $162.2 million and all interest and principal payments have been swapped into U.S. dollars at a fixed rate of 6.28%. The net proceeds from the bond offering were used for general partnership purposes.

Potential Additional Shuttle Tanker, FSO and FPSO Projects

Pursuant to an omnibus agreement that we entered into in connection with our initial public offering in December 2006, Teekay Corporation is obligated to offer to us its interest in certain shuttle tankers, FSO units and FPSO units Teekay Corporation owns or may acquire in the future, provided the vessels are servicing contracts with remaining durations of greater than three years. We may also acquire other vessels that Teekay Corporation may offer us from time to time and we intend to pursue direct acquisitions from third parties and new offshore projects.

In June 2011, Teekay Corporation entered into a contract with BG Norge Limited (or *BG*) to provide a harsh weather FPSO unit to operate in the North Sea. The contract will be serviced by a newbuilding FPSO unit, the *Petrojarl Knarr* (or *Knarr*), which completed construction and arrived in Norway in mid-September 2014. Following field installation and offshore testing, which is expected to be completed in the fourth quarter of 2014, the unit is expected to commence its ten-year time-charter contract with BG. In September 2014, we received a formal offer from Teekay Corporation to acquire the *Knarr* FPSO unit for Teekay Corporation's fully built-up cost of approximately $1.16 billion. The proposed terms of the offer include assumption of a $815 million long-term debt facility, with the net $345 million purchase price to be paid in cash or a combination of cash and equity, and may include common units issued to Teekay Corporation. The offer is currently being reviewed by the Conflicts Committee of our Board of

Directors. Once approved by the Conflicts Committee and our Board of Directors, the acquisition will remain subject to the *Knarr* FPSO achieving first oil.

Pursuant to the omnibus agreement and subsequent agreements, Teekay Corporation is obligated to offer to sell to us the *Petrojarl Foinaven* FPSO unit, an existing unit owned by Teekay Corporation and operating under a long-term contract in the North Sea, subject to approvals required from the charterer. The purchase price for the *Petrojarl Foinaven* would be based on fair market value.

In May 2011, Teekay Corporation entered into a joint venture agreement with Odebrecht (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. Through the joint venture agreement, Odebrecht is a 50% partner in the *Cidade de Itajai* (or *Itajai*) FPSO project and the new Libra FPSO project, and we are currently working with Odebrecht on other FPSO project opportunities.

Teekay Corporation owns three additional FPSO units, the *Hummingbird Spirit* FPSO, the *Petrojarl Banff* FPSO and the *Petrojarl 1* FPSO, which may also be offered to us in the future pursuant to the omnibus agreement.

RESULTS OF OPERATIONS

There are a number of factors that should be considered when evaluating our historical financial performance and assessing our future prospects and we use a variety of financial and operational terms and concepts when analyzing our results of operations. These can be found in Part I, Item 5 – "Operating and Financial Review and Prospects" in our Annual Report on Form 20-F for the year ended December 31, 2013. In accordance with United States generally accepted accounting principles (or *GAAP*), we report gross revenues in our income statements and include voyage expenses among our operating expenses. However, shipowners often base economic decisions regarding the deployment of their vessels upon anticipated time charter equivalent (or *TCE*) rates, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time charters and bareboat charters the customer usually pays the voyage expenses while under voyage charters and contracts of affreightment the shipowner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Accordingly, the discussion of revenue below focuses on net revenues (i.e. revenues less voyage expenses) and TCE rates of our four reportable segments where applicable. TCE rates represent net revenues divided by revenue days. Please read Item 1 – Financial Statements: Note 5 – Segment Reporting.

We manage our business and analyze and report our results of operations on the basis of four business segments: the shuttle tanker segment, the FPSO segment, the FSO segment, and the conventional tanker segment, each of which are discussed below. We have two new business segments, the towage segment and the floating accommodation segment, as a result of our acquisitions of ALP and Logitel in March 2014 and August 2014, respectively; however, given that ALP and Logitel's results for the periods were not significant, other than the $2.6 million acquisition fees associated with ALP, the segments are not separately discussed below in this report.

Shuttle Tanker Segment

As at September 30, 2014, our shuttle tanker fleet consisted of 32 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters, two shuttle tankers in lay-up as conversion candidates, and the HiLoad DP unit, which is currently undergoing testing from the charterer. Of these 35 shuttle tankers, six were owned through 50% owned subsidiaries, three through a 67%-owned subsidiary and two were chartered-in. The remaining vessels are owned 100% by us. All of these shuttle tankers, with the exception of the HiLoad DP unit, provide transportation services to energy companies, primarily in the North Sea and Brazil. Our shuttle tankers service the conventional spot tanker market from time to time. One of these shuttle tankers, the *Randgrid*, is committed to a conversion into an FSO unit upon the expiry of its existing shuttle tanker charter contract in 2015 and another shuttle tanker, the *Navion Norvegia*, is committed to a conversion into an FPSO unit for our joint venture with Odebrecht.

The following table presents our shuttle tanker segment's operating results for the three and nine months ended September 30, 2014 and 2013, and compares its net revenues (which is a non-GAAP financial measure) for the three and nine months ended September 30, 2014 and 2013 to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our shuttle tanker segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended September 30,		
	2014	2013	% Change
Revenues	145,043	139,554	3.9
Voyage expenses	(26,233)	(27,108)	(3.2)
Net revenues	118,810	112,446	5.7
Vessel operating expenses	(38,970)	(37,221)	4.7
Time-charter hire expense	(7,085)	(14,142)	(49.9)
Depreciation and amortization	(27,727)	(29,720)	(6.7)
General and administrative [(1)]	(7,332)	(6,172)	18.8
Write-down of vessels	(4,759)	(57,502)	(91.7)
Restructuring charge	-	(449)	(100.0)
Income (loss) from vessel operations	32,937	(32,760)	(200.5)
Calendar-Ship-Days			
Owned Vessels	3,036	2,775	9.4
Chartered-in Vessels	197	368	(46.5)
Total	3,233	3,143	2.9

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Nine Months Ended September 30,		
	2014	2013	% Change
Revenues	435,369	403,126	8.0
Voyage expenses	(82,858)	(71,677)	15.6
Net revenues	352,511	331,449	6.4
Vessel operating expenses	(119,090)	(111,699)	6.6
Time-charter hire expense	(23,472)	(43,012)	(45.4)
Depreciation and amortization	(82,386)	(85,490)	(3.6)
General and administrative (1)	(21,157)	(16,972)	24.7
Write-down of vessels	(4,759)	(57,502)	(91.7)
Restructuring recovery (charge)	262	(2,065)	(112.7)
Income from vessel operations	101,909	14,709	592.8
Calendar-Ship-Days			
Owned Vessels	8,912	8,022	11.1
Chartered-in Vessels	590	1,110	(46.8)
Total	9,502	9,132	4.1

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the shuttle tanker segment based on estimated use of corporate resources). See the discussion under "Other Operating Results" below.

The average size of our owned shuttle tanker fleet increased for the three and nine months ended September 30, 2014 compared to the same periods last year, primarily due to the delivery of four newbuilding shuttle tankers (or the *BG Shuttle Tankers*) to us during 2013 and 2014, and the delivery of the HiLoad DP Unit in April 2014, partially offset by the sale of the *Basker Spirit* in January 2013 and the commencement of the conversion of the *Navion Clipper* to an FSO unit in April 2013. Included in calendar-ship-days is one owned shuttle tanker that has been in lay-up since May 2012 following its redelivery to us upon maturity of its time-charter-out contract in April 2012 and one shuttle tanker that has been in lay-up since June 2014.

The average size of our chartered-in shuttle tanker fleet decreased for the three and nine months ended September 30, 2014 compared to the same period last year, primarily due to the redelivery to their owners of the *Karen Knutsen* in January 2014 and the *Grena* in November 2013.

Net Revenues. Net revenues increased for the three and nine months ended September 30, 2014 from the same periods last year, primarily due to:

- increases of $13.5 million and $51.8 million, respectively, for the three and nine months ended September 30, 2014, due to the commencement of the ten-year time-charter contracts of the four BG Shuttle Tankers during 2013 and early 2014;
- increases of $1.3 million and $2.6 million, respectively, for the three and nine months ended September 30, 2014, due to an increase in reimbursable bunker expenses;
- increases of $1.2 million and $6.4 million, respectively, for the three and nine months ended September 30, 2014, due to more opportunities to trade excess shuttle tanker capacity in the conventional tanker spot market;
- an increase of $1.0 million for the three months ended September 30, 2014, due to more opportunities to trade excess shuttle tanker capacity in short-term offshore projects; and
- an increase of $0.9 million for the nine months ended September 30, 2014, due to an increase in revenues in our bareboat fleet from an increase in rates as provided in certain contracts;

partially offset by

- decreases of $8.8 million and $35.4 million, respectively, for the three and nine months ended September 30, 2014, due to fewer revenue days resulting from the redelivery of four vessels to us in July 2013, December 2013, January 2014 and February 2014, as they completed their time-charter-out agreements, a decrease in revenues in our contract of affreightment fleet due to lower fleet utilization, a decrease in revenues in our time-chartered-out fleet from entering into new contracts and a decrease in rates as provided in certain contracts; and
- decreases of $2.0 million and $5.0 million, respectively, for the three and nine months ended September 30, 2014, due to more repair off-hire days in our time-chartered-out fleet compared to the same periods last year.

Vessel Operating Expenses. Vessel operating expenses increased for the three and nine months ended September 30, 2014 compared to the same periods last year, primarily due to:

- increases of $1.9 million and $9.4 million, respectively, for the three and nine months ended September 30, 2014, due to the delivery of the four BG Shuttle Tankers during 2013 and early-2014;
- increases of $1.3 million and $2.4 million, respectively, for the three and nine months ended September 30, 2014, relating to the commencement of operations of the HiLoad DP unit in April 2014; and
- increases of $0.7 million and $1.4 million, respectively, for the three and nine months ended September 30, 2014, primarily due to increases in repairs and maintenance costs;

partially offset by

- decreases of $1.3 million and $1.8 million, respectively, for the three and nine months ended September 30, 2014, due to the lay-up of the *Navion Norvegia* since June 2014;

- a decrease of $0.7 million for the nine months ended September 30, 2014, relating to the lay-up and FSO conversion of the *Navion Clipper* since February 2013;

- decreases of $0.5 million and $2.4 million, respectively, for the three and nine months ended September 30, 2014, due to a decrease in ship management fees in our contract of affreightment and time-charter fleet associated with the reorganization of our onshore marine operations that occurred in 2013; and

- decreases of $0.3 million and $1.3 million, respectively, for the three and nine months ended September 30, 2014, due to a change in crew composition relating to the reflagging of two vessels during late 2013 and early 2014, respectively, partially offset by an increase in crew and manning costs primarily due to higher crew levels.

Time-Charter Hire Expense. Time-charter hire expense decreased for the three and nine months ended September 30, 2014 compared to the same periods last year, primarily due to:

- decreases of $6.8 million and $21.1 million, respectively, for the three and nine months ended September 30, 2014, due to the redelivery of the *Karen Knutsen* in January 2014 and the *Grena* in November 2013;

- decreases of $0.3 million and $1.1 million, respectively, for the three and nine months ended September 30, 2014, primarily relating to the drydocking and offhire of the *Aberdeen* during the second and third quarters of 2014, partially offset by offhire during the first quarter of 2013; and

- decreases of $0.2 million and $1.8 million, respectively, for the three and nine months ended September 30, 2014, due to the offhire and drydocking of the *Sallie Knusten* during 2014;

partially offset by

- increases of $0.2 million and $4.7 million, respectively, for the three and nine months ended September 30, 2014, due to increased spot in-chartering of shuttle tankers.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased for the three and nine months ended September 30, 2014 from the same periods last year, primarily due to the impact from the write-down of six shuttle tankers during 2013, and lower vessel contract amortization expense, partially offset by increases due to the delivery of the four BG Shuttle Tankers during 2013 and early-2014, the dry docking of shuttle tankers in late-2013 and early-to-mid-2014, and a decrease in the expected useful life of a shuttle tanker, the *Randgrid*, due to its expected conversion to an FSO unit.

Write-down of vessels. Write-down of vessels was $4.8 million for the three and nine months ended September 30, 2014. During the three months ended September 30, 2014, the carrying value of one of our 1990s-built shuttle tanker was written down to its estimated fair value, using an appraised value. The write-down was the result of the vessel charter contract expiring in late-2014 and is expected to be re-chartered at a much lower rate.

Write-down of vessels was $57.5 million for the three and nine months ended September 30, 2013, of which $37.2 million relates to two shuttle tankers which we owned through a 50%-owned subsidiary. During the three months ended September 30, 2013, the carrying value of four 1990s-built shuttle tankers were written down to their estimated fair value, using an appraised value. The write-downs were the result of the re-contracting of one of the vessels at lower rates than expected during the third quarter of 2013, the cancellation of a short-term contract which occurred in September 2013 and a change in expectations for the contract renewal for two of our shuttle tankers, one currently operating in Brazil and the other in the North Sea.

Restructuring Recovery (Charge). Restructuring charge reimbursement for the nine months ended September 30, 2014, was $0.3 million relating to a $0.8 million reimbursement received relating to the reorganization of our shuttle tanker marine operations, partially offset by a $0.6 million charge relating to the reflagging of one shuttle tanker.

Restructuring charges were $0.4 million for the three and nine months ended September 30, 2013 resulting from the reflagging of one shuttle tanker. In addition, restructuring charges were $1.6 million for the nine months ended September 30, 2013 resulting from a reorganization of our shuttle tanker marine operations.

FPSO Segment

As at September 30, 2014, our FPSO fleet consisted of the *Petrojarl Varg,* the *Cidade de Rio das Ostras* (or *Rio das Ostras*)*,* the *Piranema Spirit* and the *Voyageur Spirit* FPSO units*,* all of which we own 100%, and a 50% interest in the *Itajai* FPSO unit. We acquired the *Voyageur Spirit* FPSO unit and our interest in the *Itajai* FPSO unit from Teekay Corporation in May 2013 and June 2013, respectively. We use the FPSO units to provide production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate FPSO contracts, some of which also include certain incentive compensation or penalties based on the level of oil production and other operational measures. Historically, the utilization of FPSO units and other vessels in the North Sea, where the *Petrojarl Varg* and *Voyageur Spirit* operate, is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to our vessels and the offshore oil platforms, which generally reduces oil production.

On April 13, 2013, the *Voyageur Spirit* FPSO unit began production and on May 2, 2013, we acquired the unit from Teekay Corporation. Upon commencing production, we had a specified time period to receive final acceptance from the charterer; however due to a defect encountered in one of its two gas compressors, the FPSO unit was unable to achieve final acceptance within the allowable timeframe resulting in the FPSO unit being declared off-hire by the charterer retroactive to April 13, 2013.

On August 27, 2013, repairs to the defective gas compressor on the *Voyageur Spirit* FPSO unit were completed and the unit achieved full production capacity. We entered into an interim agreement with E.ON whereby we were compensated for production beginning August 27, 2013 until final acceptance on February 22, 2014.

Until the *Voyageur Spirit* FPSO unit was declared on hire, Teekay Corporation indemnified us for certain production shortfalls and unreimbursed vessel operating expenses. For the period from April 13, 2013 to December 31, 2013, Teekay Corporation indemnified us for a total of $34.9 million for production shortfalls and unreimbursed repair costs. For the nine months ended September 30, 2014, Teekay Corporation indemnified us for an additional $3.5 million. Amounts paid as indemnification from Teekay Corporation to us were treated as a reduction in the purchase price we paid for the FPSO unit.

The following table presents our FPSO segment's operating results for the three and nine months ended September 30, 2014 and 2013 and also provides a summary of the calendar-ship-days for our FPSO segment. The table excludes the results of the *Itajai* FPSO unit, which is accounted for under the equity method.

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**Three Months Ended September 30,**		
	2014	**2013**	**% Change**
Revenues	92,801	73,908	25.6
Vessel operating expenses	(43,141)	(42,773)	0.9
Depreciation and amortization	(18,186)	(17,789)	2.2
General and administrative (1)	(5,143)	(5,231)	(1.7)
Income from vessel operations	26,331	8,115	224.5
Calendar-Ship-Days			
Owned Vessels	368	368	-

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**Nine Months Ended September 30,**		
	2014	**2013**	**% Change**
Revenues	259,922	196,853	32.0
Vessel operating expenses	(123,005)	(112,348)	9.5
Depreciation and amortization	(54,275)	(48,330)	12.3
General and administrative (1)	(18,890)	(12,893)	46.5
Income from vessel operations	63,752	23,282	173.8
Calendar-Ship-Days			
Owned Vessels	1,092	971	12.5

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the FPSO segment based on estimated use of corporate resources). See the discussion under "Other Operating Results" below.

Revenues. Revenues increased for the three and nine months ended September 30, 2014, compared to the same periods last year, primarily due to:

- increases of $12.0 million and $59.3 million, respectively, for the three and nine months ended September 30, 2014, primarily due to the commencement of the charter agreement for the *Voyageur Spirit* FPSO unit in August 2013;
- an increase of $4.3 million for the three and nine months ended September 30, 2014, due to the settlement of reimbursable expenses for the *Voyageur Spirit* FPSO unit during the third quarter of 2014;
- increases of $1.8 million and $2.9 million, respectively, for the three and nine months ended September 30, 2014, due to a produced water treatment plant startup on the *Piranema Spirit* during the second quarter of 2014; and
- an increase of $1.3 million for the three months ended September 30, 2014, due to the *Rio das Ostras* earning production revenue during the third quarter of 2014 compared to earning a 95% standby rate while it was being relocated to a new oil field during the same period last year;

partially offset by

- a decrease of $1.7 million for the nine months ended September 30, 2014, primarily due to a decrease in crew hours recharged to the charterer of the *Petrojar Varg*; and
- decreases of $0.4 million and $1.9 million, respectively, for the three and nine months ended September 30, 2014, due to the strengthening of the U.S. Dollar against the Norwegian Kroner compared to the same periods last year.

Teekay Corporation indemnified us for lost revenue from the *Voyageur Spirit* being off-hire since the unit began operations on April 13, 2013 until February 21, 2014. Please see Item 1 – Financial Statements: Note 8(c). The indemnification amount was $3.5 million for the nine months ended September 30, 2014, and $13.0 million and $30.0 million, respectively, for the three and nine months ended September 30, 2013. These have been recorded in equity as an adjustment to the purchase price we paid for the FPSO unit.

Vessel Operating Expenses. Vessel operating expenses increased for the three and nine months ended September 30, 2014 from the same periods last year, primarily due to:

- an increases of $18.2 million for the nine months ended September 30, 2014, due to the acquisition of the *Voyageur Spirit* FPSO unit in May 2013;
- an increase of $4.1 million for the three and nine months ended September 30, 2014, due to higher repair and maintenance costs on the *Voyageur Spirit* FPSO unit compared to the same periods last year; and
- increases of $0.8 million and $1.1 million, respectively, for the three and nine months ended September 30, 2014, mainly due to higher crew and manning costs relating to the *Piranema Spirit* and *Voyageur Spirit* FPSO unit due to higher crew levels; partially offset by lower crew and manning costs mainly relating to the *Petrojarl Varg* due to a decrease in crew hours recharged to the charterer;

partially offset by

- decreases of $1.9 million and $6.5 million, respectively, for the three and nine months ended September 30, 2014, due to lower repairs and maintenance costs mainly relating to the *Piranema Spirit, Petrojarl Varg* and *Rio das Ostras* FPSO units compared to the same periods last year;
- a decrease of $1.5 million for the three and nine months ended September 30, 2014, due to a decrease in external consulting fees for the *Voyageur Spirit* FPSO unit;
- decreases of $1.3 million and $3.9 million, respectively, for the three and nine months ended September 30, 2014, due to the strengthening of the U.S. Dollar against the Norwegian Kroner compared to the same periods last year; and
- decreases of $0.2 million and $1.5 million, respectively, for the three and nine months ended September 30, 2014, primarily due to lower ship management fees relating to the FPSO units.

Teekay Corporation indemnified us for vessel operating costs associated with unrecovered repair costs from the *Voyageur Spirit* since the unit began operations on April 13, 2013 until February 21, 2014. The indemnification amount was $0.4 million for the nine months ended September 30, 2014. This has been recorded in equity as an adjustment to the purchase price we paid for the FPSO unit.

Depreciation and Amortization Expense. Depreciation and amortization expense increased for the nine months ended September 30, 2014, from the same period last year, primarily due to the acquisition of the *Voyageur Spirit* FPSO unit during the second quarter of 2013.

FSO Segment

As at September 30, 2014, our FSO fleet consisted of six units that operate under fixed-rate time charters or fixed-rate bareboat charters, in which our ownership interests range from 89% to 100%. We have committed one shuttle tanker, the *Randgrid*, to conversion into an FSO unit upon the expiry of its existing shuttle tanker charter contract in 2015. FSO units provide an on-site storage solution to oil field installations that have no oil storage facilities or that require supplemental storage. Our revenues and vessel operating expenses for the FSO segment are affected by fluctuations in currency exchange rates, as a significant component of revenues are earned and vessel operating expenses are incurred in Norwegian Kroner and Australian Dollars for certain vessels. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner and Australian Dollar may result in significant decreases or increases, respectively, in our revenues and vessel operating expenses.

The following table presents our FSO segment's operating results for the three and nine months ended September 30, 2014 and 2013, and compares its net revenues (which is a non-GAAP financial measure) for the three and nine months ended September 30, 2014 and 2013 to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days for our FSO segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**Three Months Ended September 30,**		
	2014	**2013**	**% Change**
Revenues	12,786	14,151	(9.6)
Voyage expenses	(1,038)	(22)	4,618.2
Net revenues	11,748	14,129	(16.9)
Vessel operating expenses	(7,969)	(7,547)	5.6
Depreciation and amortization	(2,232)	(2,736)	(18.4)
General and administrative (1)	(768)	(11)	6,881.8
Income from vessel operations	779	3,835	(79.7)
Calendar-Ship-Days			
Owned Vessels	552	552	-

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Nine Months Ended September 30,		
	2014	**2013**	**% Change**
Revenues	38,748	44,344	(12.6)
Voyage (expenses) recoveries	(1,210)	463	(361.3)
Net revenues	37,538	44,807	(16.2)
Vessel operating expenses	(21,374)	(24,147)	(11.5)
Depreciation and amortization	(5,223)	(8,061)	(35.2)
General and administrative (1)	(2,654)	(1,585)	67.4
Income from vessel operations	8,287	11,014	(24.8)
Calendar-Ship-Days			
Owned Vessels	1,638	1,548	5.8

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the FSO segment based on estimated use of corporate resources). See the discussion under "Other Operating Results" below.

The average number of our FSO units for the nine months ended September 30, 2014 increased compared to the same period last year due to the conversion of the *Navion Clipper* shuttle tanker to an FSO unit, the *Suksan Salamander*, which commenced in April 2013 and was completed in July 2014.

Net Revenues. Net revenues decreased for the three and nine months ended September 30, 2014, compared to the same periods last year, primarily due to:

- a decrease of $2.7 million for the three and nine months ended September 30, 2014 due to the drydocking of the *Navion Saga* during the third quarter of 2014;
- a decrease of $2.4 million for the nine months ended September 30, 2014 primarily due to the drydocking of the *Dampier Spirit* during the second quarter of 2014;
- decreases of $1.1 million and $2.1 million, respectively, for the three and nine months ended September 30, 2014, due to a decrease in rates on the recontracting of the *Pattani Spirit* in April 2014 for a further five years;
- a decrease of $0.6 million for the nine months ended September 30, 2014, due to a recovery of expenses in the first quarter of 2013 relating to the 2012 drydocking of the *Navion Saga* and the appreciation of the U.S. Dollar against the Norwegian Kroner compared to the same period last year; and
- a decrease of $0.5 million for the nine months ended September 30, 2014 primarily due to the appreciation of the U.S. Dollar against the Australian Dollar compared to the same period last year;

partially offset by

- an increase of $1.1 million for the three and nine months ended September 30, 2014 due to the commencement of operations of the *Suksan Salamander* in the third quarter of 2014; and
- an increase of $0.6 million for the three months ended September 30, 2014, primarily due to the timing of vessel operating expense reimbursements on the *Dampier Spirit*.

Vessel Operating Expenses. Vessel operating expenses increased for the three months ended September 30, 2014 and decreased for the nine months ended September 30, 2014 compared to the same periods last year, primarily due to:

- an increase of $1.0 million for the three months ended September 30, 2014, for the *Dampier Spirit*, due to the timing of services, spares and offshore expenses compared to the same period last year;

offset by

- a decrease of $0.7 million for the nine months ended September 30, 2014, for the *Navion Saga* FSO unit, due to lower crew costs relating to a pension adjustment in the first quarter of 2014; in addition, the management of the unit was outsourced until the first quarter of 2013, when management was taken in-house and transition costs were incurred in that period;
- a decrease of $0.4 million for the nine months ended September 30, 2014, for the *Dampier Spirit*, due to lower crew costs due to the appreciation of the U.S Dollar against the Australian Dollar compared to the same period last year; and
- decreases of $0.3 million and $1.7 million, respectively, for the three and nine months ended September 30, 2014 relating to expenditures on engineering studies completed to support our FSO tenders in 2013.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased for the three and nine months ended September 30, 2014 from the same periods last year, primarily due to an extension of the estimated useful lives of the *Pattani Spirit* and the *Apollo Spirit* resulting from an extension of the charter periods for these units, partially offset by the delivery of the *Suksan Salamander* in August 2014.

Conventional Tanker Segment

As at September 30, 2014, we owned 100% interests in two Aframax conventional crude oil tankers (which operate under fixed-rate time charters with Teekay Corporation) and two vessels (that have additional equipment for lightering) which operate under fixed-rate bareboat charters with a 100% owned subsidiary of Teekay Corporation.

The 2013 results in the tables below exclude three additional conventional tankers as they were determined to be discontinued operations. During the first quarter of 2013, we sold a vessel and we terminated the long-term time-charter-out contract employed by one of our conventional tankers with a subsidiary of Teekay Corporation, which was sold in the second quarter of 2013. A third conventional tanker on contract to Teekay Corporation was sold in the third quarter of 2013. We received early termination fees from Teekay Corporation of $6.8 million and $4.5 million in the first and second quarters of 2013, respectively, which are recorded in discontinued operations.

The following table presents our conventional tanker segment's operating results for the three and nine months ended September 30, 2014 and 2013, and compares its net revenues (which is a non-GAAP financial measure) for the three and nine months ended September 30, 2014 and 2013 to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our conventional tanker segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**Three Months Ended September 30,** 2014	2013	**% Change**
Revenues	7,812	7,948	(1.7)
Voyage expenses	(1,351)	(1,119)	20.7
Net revenues	6,461	6,829	(5.4)
Vessel operating expenses	(1,558)	(1,494)	4.3
Depreciation and amortization	(1,614)	(1,675)	(3.6)
General and administrative [(1)]	(795)	(1,186)	(33.0)
Income from vessel operations	2,494	2,474	0.8
Calendar-Ship-Days			
Owned Vessels	368	368	-

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**Nine Months Ended September 30,** 2014	2013	**% Change**
Revenues	25,039	25,762	(2.8)
Voyage expenses	(4,264)	(3,256)	31.0
Net revenues	20,775	22,506	(7.7)
Vessel operating expenses	(4,483)	(4,684)	(4.3)
Depreciation and amortization	(4,837)	(4,814)	0.5
General and administrative [(1)]	(1,640)	(1,957)	(16.2)
Restructuring charge	-	(438)	(100.0)
Income from vessel operations	9,815	10,613	(7.5)
Calendar-Ship-Days			
Owned Vessels	1,092	1,092	-

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the conventional tanker segment based on estimated use of corporate resources). See the discussion under "Other Operating Results" below.

Net Revenues. Net revenues decreased for the three and nine months ended September 30, 2014, from the same periods last year, primarily due to lower reimbursed bunkers.

Restructuring charges. Restructuring charge was $0.4 million for the nine months ended September 30, 2013, relating to the reorganization of the conventional tanker marine operations. The purpose of the restructuring was to create better alignment with marine operations resulting in a lower cost organization. The reorganization was completed by June 30, 2013.

Other Operating Results

General and Administrative Expenses. General and administrative expenses increased to $14.0 million and $46.9 million, respectively, for the three and nine months ended September 30, 2014, from $12.6 million and $33.4 million, respectively, for the same periods last year, mainly due to the acquisition of the *Voyageur Spirit* FPSO unit during the second quarter of 2013, the acquisition of ALP during the first quarter of 2014 (including a $1.6 million business development fee to Teekay Corporation for assistance with the acquisition during the second quarter of 2014 and a $1.0 million fee to a third party relating to the acquisition during the first quarter of 2014), the delivery of the HiLoad DP unit during the second quarter of 2014, the acquisition of Logitel during the third quarter of 2014, the deliveries of the four BG Shuttle Tankers during 2013 and early-2014, and an increase in business development costs relating to FPSO tenders, partially offset by cost savings due to the reorganization of marine operations within our shuttle tanker business unit completed in 2013.

Interest Expense. Interest expense increased to $22.9 million and $63.4 million, respectively, for the three and nine months ended September 30, 2014 from $16.8 million and $44.5 million, respectively, for the same periods last year, primarily due to:

- increases of $6.4 million and $16.2 million, respectively, for the three and nine months ended September 30, 2014, due to the $300 million senior unsecured bonds issued during the second quarter of 2014 and borrowings relating to the *Voyageur Spirit* FPSO and the four BG Shuttle Tankers that delivered during 2013 and early-2014;

- net increases of $1.4 million and $4.6 million, respectively, for the three and nine months ended September 30, 2014, primarily from the issuance of NOK 1,000 million senior unsecured bonds in January 2014, partially offset by the repurchase of NOK 388.5 million of the NOK 600 million senior unsecured bonds issued during the first quarter of 2013 and the remaining NOK 211.5 million bonds that matured in November 2013; and

- an increase of $1.1 million for the nine months ended September 30, 2014, primarily from an increase in loan cost amortization relating to the new debt facilities described above;

partially offset by

- decreases of $1.5 million and $3.0 million, respectively, for the three and nine months ended September 30, 2014, due to lower balances and interest rates on all other borrowings compared to the same periods last year.

Interest Income. Interest income decreased to $0.5 million for the nine months ended September 30, 2014, from $2.1 million for the same period last year, primarily due to interest income received in 2013 on our partial prepayment to Teekay Corporation of $150 million in anticipation of the *Voyageur Spirit* FPSO unit acquisition. We received interest on this amount at a rate of LIBOR plus a margin of 4.25% until we acquired the FPSO unit on May 2, 2013.

Realized and Unrealized (Losses) Gains on Derivatives. Net realized and unrealized losses on derivatives were $9.4 million and $84.2 million, respectively, for the three and nine months ended September 30, 2014, compared to net realized and unrealized (losses) gains of ($8.0) million and $24.9 million for the same periods last year.

During the three months ended September 30, 2014 and 2013, we had interest rate swap agreements with aggregate average outstanding notional amounts of approximately $1.8 billion and $1.9 billion, respectively, with average fixed rates of approximately 3.6% and 3.4%, respectively. Short-term variable benchmark interest rates during these periods were generally 0.7% or less and, as such, we incurred realized losses of $13.8 million and $14.4 million, respectively, during the three months ended September 30, 2014 and 2013, under the interest rate swap agreements.

During the nine months ended September 30, 2014 and 2013, we had interest rate swap agreements with aggregate average outstanding notional amounts of approximately $1.8 billion and $1.7 billion, respectively, with average fixed rates of approximately 3.6% and 3.4%, respectively. Short-term variable benchmark interest rates during these periods were generally 0.8% or less and, as such, we incurred realized losses of $41.9 million and $48.0 million, respectively, during the nine months ended September 30, 2014 and 2013, under the interest rate swap agreements. Included in realized losses for the nine months ended September 30, 2013 is a $4.1 million loss due to the termination of an interest rate swap relating to the *Voyageur Spirit*, which is included in the results of the Dropdown Predecessor. Please see Item 1 – Financial Statements: Note 3.

Also included in realized losses for the for the three and nine months ended September 30, 2013 is a $31.8 million loss due to the early termination of an interest rate swap.

During the three months ended September 30, 2014 and 2013, we recognized unrealized gains of $6.9 million and $36.5 million, respectively, on our interest rate swaps. The unrealized gains for the three months ended September 30, 2014 resulted from the transfer of $13.8 million of previously recognized unrealized losses to realized losses, related to actual cash settlements, offset by $6.9 million of unrealized losses relating to decreases in long-term LIBOR benchmark interest rates relative to the prior quarter. The unrealized gains for the three months ended September 30, 2013 resulted from the transfer of $46.2 million of previously recognized unrealized losses to realized losses, related to actual cash settlements, including $31.8 million from the early termination of an interest rate swap, partially offset by $9.7 million of unrealized losses relating to decreases in long-term LIBOR benchmark interest rates relative to the prior quarter.

During the nine months ended September 30, 2014 and 2013, we recognized unrealized losses of $40.2 million and unrealized gains of $108.4 million, respectively, on our interest rate swaps. The unrealized losses for the nine months ended September 30, 2014 resulted from the transfer of $41.9 million of previously recognized unrealized losses to realized losses related to actual cash settlements, offset by $82.1 million of unrealized losses relating to the decreases in long-term LIBOR benchmark interest rates relative to the prior period. The unrealized gains for the nine months ended September 30, 2013 resulted from the transfer of $79.8 million of previously recognized unrealized losses to realized losses related to actual cash settlements, including $31.8 million from the early termination of an interest rate swap, and an additional $28.6 million of unrealized gains relating to increases in long-term LIBOR benchmark interest rates relative to the prior period.

Equity Income. Equity income was $2.5 million and $8.6 million, respectively, for the three and nine months ended September 30, 2014 compared to $1.2 million and $2.8 million, respectively, for the same periods last year. The increase in equity income during the three months ended September 30, 2014, compared to the same period last year, was primarily due to an unrealized gain on derivative instruments included in our investment in the *Itajai* FPSO unit in which we acquired a 50% interest from Teekay Corporation in June 2013. The increase in equity income during the nine months ended September 30, 2014, compared to the same period last year, was primarily due to a full period of earnings on our investment in the *Itajai* FPSO unit.

Foreign Currency Exchange Losses. Foreign currency exchange losses were $0.9 million and $4.6 million, respectively, for the three and nine months ended September 30, 2014, compared to $2.7 million and $2.8 million, respectively, for the same periods last year. Our foreign currency exchange losses, substantially all of which are unrealized, are due primarily to the relevant period-end revaluation of Norwegian Kroner-denominated monetary assets and liabilities for financial reporting purposes and the realized and unrealized gains and losses on our cross currency swaps. Gains on Norwegian Kroner-denominated monetary liabilities reflect a stronger U.S. Dollar against the Norwegian Kroner on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses on Norwegian Kroner-denominated monetary liabilities reflect a weaker U.S. Dollar against the Norwegian Kroner on the date of revaluation or settlement compared to the rate in effect at the beginning of the period.

For the three and nine months ended September 30, 2014, foreign currency exchange losses include realized losses of $0.5 million for both periods, (2013 - gains of $0.3 million and $1.4 million, respectively) and unrealized losses of $18.8 million and $25.5 million, respectively, (2013 - gains (losses) of $0.7 million and ($34.1) million, respectively) on the cross currency swaps and unrealized gains of $21.6 million and $23.9 million, respectively (2013 - (losses) gains of ($3.2) million and $34.0 million, respectively) on the revaluation of the Norwegian Kroner denominated debt. There were additional realized and unrealized foreign exchange losses of $3.2 million and $2.4 million, respectively, for the three and nine months ended September 30, 2014 (2013 - losses of $0.6 million and $4.3 million, respectively) on all other monetary assets and liabilities. During the nine months ended September 30, 2013, we repurchased NOK 388.5 million of the then outstanding NOK 600 million senior unsecured bonds that matured in November 2013. Associated with this, we recorded $6.6 million of realized losses on the repurchased bonds and recorded $6.8 million of realized gains on the termination of the associated cross currency swap.

Loss on Bond Repurchase. Loss on bond repurchase was $1.8 million for the nine months ended September 30, 2013. The loss represents a 2.5% premium paid for the repurchase of NOK 388.5 million of the then outstanding NOK 600 million senior unsecured bond issue that matured in November 2013.

Income Tax Expense. Income tax expense was $1.5 million and $2.9 million, respectively, for the three and nine months ended September 30, 2014, compared to $0.1 million and $0.3 million, respectively, for the same periods last year. The increase in income tax expense during the three months ended September 30, 2014, compared to the same period last year, was primarily due to an increase in the deferred tax expense relating to the *Dampier Spirit* resulting from an increase in earnings from a contract extension. The increase in income tax expense during the nine months ended September 30, 2014, compared to the same period last year, was primarily due to an increase in the deferred tax expense relating to the *Dampier Spirit* resulting from an increase in earnings in the third quarter of 2014 from a contract extension, the non-deductibility of certain intercompany interest expense in our Norwegian entities commencing in 2014 due to a change in tax laws, and tax adjustments relating to the *Rio das Ostras* Brazilian entity during the first quarters of 2014 and 2013.

Net Loss from Discontinued Operations. Net loss from discontinued operations was $0.3 million and $4.6 million, respectively, for the three and nine months ended September 30, 2013. We sold the *Leyte Spirit,* the *Poul Spirit* and the *Gotland Spirit* during the first, second and third quarters of 2013, respectively.

If these vessels were not classified as discontinued operations, the results of the operations of these vessels would have been reported within the conventional tanker segment.

During the first and second quarters of 2013, we terminated the long-term time-charter-out contract employed by the *Poul Spirit* and the *Gotland Spirit* with a subsidiary of Teekay Corporation. We received early termination fees from Teekay Corporation of $11.3 million during the nine months ended September 30, 2013. In addition, we recorded write-downs and gain (loss) on sale of vessels of $0.6 million and ($18.5) million, respectively, during the three and nine months ended September 30, 2013.

Liquidity and Capital Resources

Liquidity and Cash Needs

Our business model is to employ our vessels on fixed-rate contracts with major oil companies, typically with original terms between three to ten years. The operating cash flow our vessels generate each quarter, excluding a reserve for maintenance capital expenditures, is generally paid out to our common unitholders within approximately 45 days after the end of each quarter. Our primary short-term liquidity needs are to pay quarterly distributions on our outstanding common and Series A preferred units, payment of operating expenses, dry docking expenditures, debt service costs and to fund general working capital requirements. We anticipate that our primary sources of funds for our short-term liquidity needs will be cash flows from operations. We believe that our existing cash and cash equivalents and undrawn long-term borrowings, in addition to all other sources of cash including cash from operations, will be sufficient to meet our existing liquidity needs for at least the next 12 months.

Our long-term liquidity needs primarily relate to expansion and maintenance capital expenditures and debt repayment. Expansion capital expenditures primarily represent the purchase or construction of vessels to the extent the expenditures increase the operating capacity or revenue generated by our fleet, while maintenance capital expenditures primarily consist of dry docking expenditures and expenditures to replace vessels in order to maintain the operating capacity or revenue generated by our fleet. Our primary sources of funds for our long-term liquidity needs are from cash from operations, long-term bank borrowings and other debt or equity financings, or a combination thereof. Consequently, our ability to continue to expand the size of our fleet is dependent upon our ability to obtain long-term bank borrowings and other debt, as well as raising equity.

Our revolving credit facilities and term loans are described in Item 1 – Financial Statements: Note 6 – Long-Term Debt. They contain covenants and other restrictions typical of debt financing secured by vessels that restrict the ship-owning subsidiaries from incurring or guaranteeing indebtedness; changing ownership or structure, including mergers, consolidations, liquidations and dissolutions; paying dividends or distributions if we are in default; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; or entering into a new line of business. Certain of our revolving credit facilities and term loans include financial covenants. Should we not meet these financial covenants, the lender may accelerate the repayment of the revolving credit facilities and term loans, thus having an impact on our short-term liquidity requirements. We have one revolving credit facility that requires us to maintain a vessel value to drawn principal balance ratio of a minimum of 105%. As at September 30, 2014, this ratio was 159.6%. The vessel value used in this ratio is the appraised value prepared by us based on second hand sale and purchase market data. A further delay in the recovery of the conventional tanker market could negatively affect this ratio. As at September 30, 2014, we and our affiliates were in compliance with all covenants relating to the revolving credit facilities and term loans.

As at September 30, 2014, our total consolidated cash and cash equivalents were $224.6 million, compared to $219.1 million at December 31, 2013. Our total consolidated liquidity, including cash, cash equivalents and undrawn long-term borrowings, was $448.2 million as at September 30, 2014, compared to $331.0 million as at December 31, 2013. The increase in liquidity was primarily due to the proceeds from the issuance of NOK 1,000 million and $300.0 million of senior unsecured bonds in January 2014 and May 2014, respectively, and a commitment on an undrawn facility relating to the *Suksan Salamander* in September 2014, partially offset by: our acquisition in March 2014 of 100% of the shares of ALP and installments on the four ALP towage vessels newbuildings; our acquisition in August 2014 of 100% of the shares of Logitel and the exercise of the option to construct the third FAU; a reduction in the amount available for borrowing under our revolving credit facilities; and the scheduled repayment or prepayment of outstanding term loans.

As at September 30, 2014, we had a working capital deficit of $202.9 million, compared to a working capital deficit of $720.6 million at December 31, 2013. As at September 30, 2014, the working capital deficit included $131.8 million of term loans, $224.4 million of revolving credit facilities and $59.0 million of interest rate swap liabilities. The current portion of long-term debt decreased mainly due to the refinancing of two debt facilities and the repayment of various debt facilities during the nine months ended September 30, 2014. In addition, in October 2014, we refinanced $330.0 million of revolving credit facilities coming due during the remainder of 2014. The amount available under the new revolving credit facility will reduce quarterly by $16.5 million per quarter over five years. Our net due to affiliates balance decreased mainly due to repayments made during the nine months ended September 30, 2014. We expect to manage our working capital deficit primarily with net operating cash flow generated in 2014 and, to a lesser extent, with new and existing undrawn revolving credit facilities and term loans.

The passage of any climate control legislation or other regulatory initiatives that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business, which we cannot predict with certainty at this time. Such regulatory measures could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. In addition, increased regulation of greenhouse gases may, in the long term, lead to reduced demand for oil and reduced demand for our services.

Cash Flows. The following table summarizes our sources and uses of cash for the periods presented:

(in thousands of U.S. dollars)	**Nine Months Ended September 30,**	
	2014	**2013**
Net cash flow from operating activities	83,718	193,653
Net cash flow from financing activities	63,007	233,465
Net cash flow used for investing activities	(141,285)	(374,557)

Operating Cash Flows.

Net cash flow from operating activities decreased to $83.7 million for the nine months ended September 30, 2014, from $193.7 million for the same period in 2013 due primarily to a $171.4 million decrease in changes in non-cash working capital items, a $20.0 million increase in net interest expense, a $15.1 million decrease in cash receipts from discontinued operations, a $15.1 million increase in vessel operating expenses, a $13.6 million increase in general and administrative expenses, a $11.2 million increase in dry-docking expenditures and a $5.8 million decrease in realized foreign exchange gains and other items, partially offset by a $75.5 million increase in net revenue, a $38.0 million decrease in realized losses on derivatives, a $19.5 million decrease in time-charter hire expense, a $7.4 million increase in dividends received from our equity-accounted joint venture and a $2.8 million decrease in restructuring charges.

The $171.4 million decrease in non-cash working capital items for the nine months ended September 30, 2014 compared to the same period last year is primarily due to the timing of settlements of intercompany balances with related parties and the timing of payments made to vendors, partially offset by the timing of payments received from customers.

For a further discussion of changes in income statement items described above for our four reportable segments, please read “Results of Operations”.

Financing Cash Flows.

In order to partially finance new acquisitions, we periodically issue equity to the public and to institutional investors. We raised net proceeds (including our general partner’s 2% proportionate capital contribution) from equity offerings of $7.6 million and $209.4 million for the nine months ended September 30, 2014 and 2013, respectively. We purchased the *Voyageur Spirit* FPSO unit during the nine months ended September 30, 2013.

We use our revolving credit facilities to finance capital expenditures and for general partnership purposes. Occasionally we will do this until longer-term financing is obtained, at which time we typically use all or a portion of the proceeds from the longer-term financings to prepay outstanding amounts under the revolving credit facilities. Our proceeds from long-term debt, net of debt issuance costs and prepayments of long-term debt, were $479.9 million for the nine months ended September 30, 2014, and $525.0 million for the same period in 2013.

Net proceeds from the issuance of long-term debt decreased for the nine months ended September 30, 2014, mainly due to:

- proceeds from the issuance of NOK 1,300 million unsecured bonds issued during the nine months ended September 30, 2013 (of which a portion was used to repurchase NOK 388.5 million of existing bonds, to repay existing revolving credit facility debt and for general partnership purposes);
- a $230 million repayment of an existing debt facility relating to the *Voyageur Spirit* and the drawdown of a new $330 million debt facility that was used to purchase the *Voyageur Spirit* FPSO unit during the nine months ended September 30, 2013; and

- the drawdown of $170 million on a new debt facility relating to the two delivered BG Shuttle Tankers and the issuance of $87 million senior secured bonds relating to the third delivered BG Shuttle Tanker during the nine months ended September 30, 2013, which were used to partially finance the installments relating to these vessels;

partially offset by,

- proceeds from the issuance of NOK 1,000 million and $300.0 million unsecured bonds issued during the nine months ended September 30, 2014, which were used for general partnership purposes.

We actively manage the maturity profile of our outstanding financing arrangements. Our scheduled repayments of long-term debt increased to $274.2 million for the nine months ended September 30, 2014, from $123.0 million for the same period in 2013.

Cash distributions paid by our subsidiaries to non-controlling interests during the nine months ended September 30, 2014 and 2013 totaled $19.8 million and $4.2 million, respectively. Cash distributions paid by us to our common unitholders and our general partner, with respect to our common units, and our Series A preferred unitholders during the nine months ended September 30, 2014 and 2013 were $160.9 million and $141.8 million, respectively. The increase in distributions paid by our subsidiaries to non-controlling interests was due to the timing of payments of cash distributions. The increase in distributions to our common and preferred unitholders was attributed to: two increases in our cash distribution to common unitholders, one commencing with the cash distributions paid in the second quarter of 2013 and the other commencing with the cash distribution paid in the first quarter of 2014, of $0.0128 per unit and $0.0131 per unit, respectively, or approximately 2.5% each; an increase in the number of common units resulting from the 5.5 million (including our general partner's 2% proportionate capital contribution) common units issued during 2013; and the issuance of 6.0 million Series A preferred units in 2013. The increase in the 2013 cash distribution coincided with our acquisition of the *Voyageur Spirit* FPSO unit. The increase in the 2014 cash distribution coincided with the completion of deliveries of the four BG Shuttle Tankers. Subsequent to September 30, 2014, cash distributions of $51.0 million on our outstanding common units and general partner interest related to the three months ended September 30, 2014 were declared and will be paid on November 14, 2014. Subsequent to September 30, 2014, cash distributions for Series A preferred units relating to the third quarter of 2014 were declared and will be paid on November 14, 2014 and totaled $2.7 million.

Investing Cash Flows.

During the nine months ended September 30, 2014, net cash flow used for investing activities was $141.3 million, primarily relating to the expenditures for vessels and equipment (including installments of $53.3 million on the four newbuilding ALP towage vessels, $35.8 million on FSO conversion costs and $51.7 million on various other vessel additions), advances to our joint venture partner of $6.5 million and the $2.3 million acquisition of 100% of the shares of ALP, partially offset by scheduled lease payments of $4.2 million received from the leasing of our volatile organic compound emissions equipment and direct financing lease assets and a net cash inflow of $4.1 million due to cash received of $8.1 million as part of the acquisition of 100% of the shares of Logitel, offset by $4.0 million cash consideration paid.

During the nine months ended September 30, 2013, net cash flow used for investing activities was $374.6 million, primarily relating to the expenditures for vessels and equipment, including installments and final payments of $256.5 million on the four newbuilding BG Shuttle Tankers, $53.4 million on the HiLoad DP Unit, the $52.5 million acquisition from Teekay Corporation of its 50 percent interest in the *Itajai* FPSO unit and $44.4 million on various other vessel additions, partially offset by aggregate sale proceeds of $28.0 million from the sale of the *Basker Spirit* shuttle tanker and the *Leyte Spirit,* the *Poul Spirit* and the *Gotland Spirit* conventional tankers and the scheduled lease payments of $4.3 million received from the leasing of our VOC emissions equipment and direct financing lease assets.

Contractual Obligations and Contingencies

The following table summarizes our long-term contractual obligations as at September 30, 2014:

	Total	Balance of 2014	2015 and 2016	2017 and 2018	Beyond 2018
	(in millions of U.S. Dollars)				
U.S. Dollar-Denominated Obligations					
Long-term debt(1) (2)	2,136.3	512.4	363.2	544.8	715.9
Chartered-in vessels (Operating leases)	13.7	6.8	6.9	-	-
Acquisition of newbuildings (3)	731.3	9.4	720.0	1.9	-
Conversion of FSO unit (4)	235.5	18.3	217.2	-	-
Norwegian Kroner-Denominated Obligations					
Long-term debt (5)	451.3	-	77.8	217.9	155.6
Total contractual obligations	3,568.1	546.9	1,385.1	764.6	871.5

(1) Excludes expected interest payments of $13.4 million (remainder of 2014), $92.5 million (2015 and 2016), $71.5 million (2017 and 2018) and $43.6 million (beyond 2018). Expected interest payments are based on LIBOR, plus margins which ranged between 0.3% and 3.25% as at September 30, 2014. The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our variable rate debt.

(2) Does not reflect the refinancing of $330.0 million of revolving credit facilities coming due during the remainder of 2014. The refinancing was completed in October 2014, and the amount available under the new revolving credit facility will reduce quarterly by $16.5 million per quarter over five years.

(3) Relates to the acquisition of four towage and anchor handling newbuildings and three FAUs. Please read Item 1 – Financial Statements: Note 11 (d)

and (e) – Commitments and Contingencies, and Note 15 (a) and (b) – Acquisitions. This does not include our commitment to acquire six towage and anchor handling vessels, which remains subject to closing conditions, including the completion of vessel inspections and documentation. Please read Item 1 – Financial Statements: Note 16b.

(4) Includes amounts reimbursable upon delivery of the units relating to installation and mobilization costs, and the costs of acquiring the remaining 33% ownership interest in the *Randgrid* shuttle tanker. Please read Item 1 – Financial Statements: Note 11 (c) – Commitments and Contingencies.

(5) Excludes expected interest payments of $7.2 million (remainder of 2014), $53.2 million (2015 and 2016), $27.7 million (2017 and 2018) and $0.8 million (beyond 2018). Expected interest payments are based on NIBOR, plus margins which ranged between 4.00% and 5.75% as at September 30, 2014. The expected interest payments do not reflect the effect of related interest rate swaps and cross currency swaps that we have used as an economic hedge of certain of our variable rate debt.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates and such differences could be material. Accounting estimates and assumptions discussed in our Annual Report on Form 20-F are those that we consider to be the most critical to an understanding of our financial statements, because they inherently involve significant judgments and uncertainties. For a description of our material accounting policies, please read Part I, Item 5 – Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2013. As at September 30, 2014, there were no significant changes to accounting estimates or assumptions from those discussed in the Form 20-F.

At September 30, 2014, the shuttle tanker and towage segments had goodwill attributable to them. Based on conditions that existed at September 30, 2014, we do not believe that there is a reasonable possibility that the goodwill attributable to these reporting units might be impaired for the remainder of the year. However, certain factors that impact this assessment are inherently difficult to forecast and, as such, we cannot provide any assurance that an impairment will or will not occur in the future. An assessment for impairment involves a number of assumptions and estimates that are based on factors that are beyond our control. These are discussed in more detail in the following section entitled "Forward-Looking Statements".

FORWARD-LOOKING STATEMENTS

This Report on Form 6-K contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and our operations, performance and financial condition, including, in particular, statements regarding:

- our future growth prospects;
- results of operations and revenues and expenses;
- offshore and tanker market fundamentals, including the balance of supply and demand in the offshore and tanker market and spot tanker charter rates;
- future capital expenditures and availability of capital resources to fund capital expenditures;
- offers of shuttle tankers, FSOs and FPSOs units and related contracts from Teekay Corporation and our accepting the offers, including the offer of the *Petrojarl Knarr* FPSO unit and related terms and conditions;
- acquisitions from third parties and obtaining offshore projects, that we or Teekay Corporation bid on or may be awarded;
- certainty of completion, estimated delivery dates, intended financing and estimated costs for newbuildings, acquisitions and conversions, including the FAUs, towage vessels, conversion of the *Navion Norvegia* to an FPSO unit to serve the Libra field, conversion of the *Randgrid* to an FSO unit to serve the Gina Krog oil and gas field and the acquisition of the *Petrojarl Knarr* FPSO unit, including the purchase price, the timing of completion of field installation and contract start-up;
- the timing of the commencement of charter contracts for newbuilding and converted vessels, including the *HiLoad DP* unit, Libra FPSO unit, Gina Krog FSO unit and *Knarr* FPSO unit;
- payment of additional consideration for our acquisition of ALP and the capabilities of the ALP vessels;
- payment of additional consideration for our acquisition of Logitel and the capabilities of the FAU units;
- the expectations as to the chartering of two FAUs, and the financing of the FAUs and towage vessel newbuildings;
- the cost and certainty of our acquisition of the remaining 33% ownership interest in the *Randgrid* shuttle tanker;
- features and performance of next generation HiLoad DP units;
- results of restructured operations;
- vessel operating and crewing costs for vessels;
- our entering into joint ventures or partnerships with companies;

- the commencement of service of existing vessels;
- the duration of dry dockings;
- the future valuation of goodwill;
- our liquidity needs;
- our compliance with covenants under our credit facilities;
- our hedging activities relating to foreign exchange, interest rate and spot market risks;
- the ability of the counterparties for our derivative contracts to fulfill their contractual obligations; and
- our exposure to foreign currency fluctuations, particularly in Norwegian Kroner.

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe", "anticipate", "expect", "estimate", "project", "will be", "will continue", "will likely result", "plan", "intend" or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to: changes in production of oil from offshore oil fields; changes in oil prices; changes in the demand for offshore oil transportation, production and storage services; greater or less than anticipated levels of vessel newbuilding orders or greater or less than anticipated rates of vessel scrapping; changes in trading patterns; changes in our expenses; the timing of implementation of new laws and regulations; potential inability to implement our growth strategy; competitive factors in the markets in which we operate; potential for early termination of long-term contracts and our potential inability to renew or replace long-term contracts; loss of any customer, time charter or vessel; shipyard production, conversion or vessel delivery delays; the inability of the joint venture between Teekay Corporation and Odebrecht to secure new Brazil FPSO projects that may be offered for sale to us; failure to obtain required approvals by the Conflicts Committee of our general partner to acquire other vessels or offshore projects from Teekay Corporation or third parties; our potential inability to raise financing to purchase additional vessels; our exposure to currency exchange rate fluctuations; changes to the amount or proportion of revenues and expenses denominated in foreign currencies; our potential acquisition of the *Knarr* FPSO unit, including the purchase price, the timing of completion of field installation and contract start-up for this FPSO unit, the timing and certainty of completing the acquisition, and the consideration for the acquisition; potential inability to obtain charters for two FAUs or financing related to FAUs and towage vessels; and other factors detailed from time to time in our periodic reports filed with the SEC, including our Annual Report on Form 20-F for the year ended December 31, 2013. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to the impact of interest rate changes primarily through our floating-rate borrowings that require us to make interest payments based on LIBOR or NIBOR. Significant increases in interest rates could adversely affect operating margins, results of operations and our ability to service our debt. From time to time, we use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt.

We are exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

The tables below provide information about financial instruments as at September 30, 2014 that are sensitive to changes in interest rates. For long-term debt, the table presents principal payments and related weighted-average interest rates by expected contractual maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

	Expected Maturity Date								
	Balance of 2014	2015	2016	2017	2018	There-after	Total	Fair Value Liability	Rate [1]
	(in millions of U.S. dollars, except percentages)								
Long-Term Debt:									
Variable Rate ($U.S.)[2] [3]	508.0	145.3	167.8	264.9	260.6	292.0	1,638.6	1,632.0	1.7%
Variable Rate (NOK)[4]	-	-	77.8	93.4	124.5	155.6	451.3	462.2	6.3%
Fixed-Rate Debt ($U.S.)	4.4	28.9	21.2	5.3	14.0	423.9	497.7	491.7	5.3%
Interest Rate Swaps:									
Contract Amount [5]	204.5	486.4	156.9	128.9	137.7	663.0	1,777.4	179.9	3.6%
Average Fixed Pay Rate [2]	3.3%	3.7%	3.2%	1.2%	1.1%	4.7%	3.6%		

(1) Rate refers to the weighted-average effective interest rate for our debt, including the margin paid on our floating-rate debt and the average fixed pay rate for interest rate swaps. The average fixed pay rate for interest rate swaps excludes the margin paid on the floating-rate debt, which as of September 30, 2014 ranged between 0.3% and 3.25% based on LIBOR and between 4.00% and 5.75% based on NIBOR.

(2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR.

(3) Does not include the refinancing of $330.0 million of revolving credit facilities coming due during the remainder of 2014. The refinancing was completed in October 2014, and the amount available under the new revolving credit facility will reduce quarterly by $16.5 million per quarter over five years.

(4) Interest payments on NOK-denominated debt and interest rate swaps are based on NIBOR.

(5) The average variable receive rate for interest rate swaps is set quarterly at the 3-month LIBOR or semi-annually at the 6-month LIBOR.

Foreign Currency Fluctuation Risk

Our functional currency is the U.S. dollar because virtually all of our revenues and most of our operating costs are in U.S. Dollars. We incur certain vessel operating expenses and general and administrative expenses in foreign currencies, the most significant of which is the Norwegian Kroner and, to a lesser extent, Australian Dollars, Brazilian Reals, British Pounds, Euros and Singapore Dollars. There is a risk that currency fluctuations will have a negative effect on the value of cash flows.

We may continue to seek to hedge certain of our currency fluctuation risks in the future. At September 30, 2014, we were committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (thousands)	Average Forward Rate [1]	Expected Maturity 2014	2015	2016	Fair Value / Carrying Amount of Asset (Liability) (in thousands of U.S. Dollars) Non-hedge
			(in thousands of U.S. Dollars)			
Norwegian Kroner	430,000	6.24	14,948	48,553	5,408	(2,458)

(1) Average forward rate represents the contracted amount of foreign currency one U.S. Dollar will buy.

We incur interest expense on our NOK-denominated bonds. We have entered into cross currency swaps to economically hedge the foreign exchange risk on the principal and interest for these bonds. Please read Item 1 – Financial Statements: Note 9 – Derivative Instruments and Hedging Activities.

As at September 30, 2014, we were committed to the following cross currency swaps:

Principal Amount NOK (thousands)	Principal Amount USD (thousands)	Floating Rate Receivable Reference Rate	Floating Rate Receivable Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Asset (Liability) (Thousands of U.S. Dollars)	Remaining Term (years)
600,000	101,351	NIBOR	5.75%	7.49%	(10,485)	2.3
500,000	89,710	NIBOR	4.00%	4.80%	(12,568)	1.3
800,000	143,536	NIBOR	4.75%	5.93%	(19,501)	3.3
1,000,000	162,200	NIBOR	4.25%	6.28%	(8,738)	4.3
					(51,292)	

Commodity Price Risk

We are exposed to changes in forecasted bunker fuel costs for certain vessels being time-chartered-out and for vessels servicing certain contracts of affreightment. We may use bunker fuel swap contracts as economic hedges to protect against changes in bunker fuel costs. As at September 30, 2014, we were not committed to any bunker fuel swap contracts.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

The information set forth above under Note 11 contained in the “Notes to the Unaudited Consolidated Financial Statements” is incorporated herein by reference.

Item 1A – Risk Factors

In addition to the other information set forth in this Report on Form 6-K, you should carefully consider the risk factors discussed in Part I, Item 3. Key Information – Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2013, which could materially affect our business, financial condition or results of operations.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

None

Item 5 – Other Information

None

Item 6 – Exhibits

None

THIS REPORT ON FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO THE FOLLOWING REGISTRATION STATEMENTS OF THE PARTNERSHIP:

- **REGISTRATION STATEMENT ON FORM S-8 (NO. 333-147682) FILED WITH THE SEC ON NOVEMBER 28, 2007**
- **REGISTRATION STATEMENT ON FORM F-3 (NO. 333-175685) FILED WITH THE SEC ON JULY 21, 2011**
- **REGISTRATION STATEMENT ON FORM F-3 (NO. 333-178620) FILED WITH THE SEC ON DECEMBER 19, 2011**
- **REGISTRATION STATEMENT ON FORM F-3 (NO. 333-183225) FILED WITH THE SEC ON AUGUST 10, 2012**
- **REGISTRATION STATEMENT ON FORM F-3 (NO. 333-188393) FILED WITH THE SEC ON MAY 7, 2013**
- **REGISTRATION STATEMENT ON FORM F-3 (NO. 333-188543) FILED WITH THE SEC ON MAY 10, 2013**
- **REGISTRATION STATEMENT ON FORM F-3 (NO. 333-193301) FILED WITH THE SEC ON JANUARY 10, 2014**
- **REGISTRATION STATEMENT ON FORM F-3ASR (NO. 333-196098) FILED WITH THE SEC ON MAY 20, 2014**
- **REGISTRATION STATEMENT ON FORM F-3 (NO. 333-197053) FILED WITH THE SEC ON JUNE 26, 2014**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEEKAY OFFSHORE PARTNERS L.P.

By: Teekay Offshore GP L.L.C., its general partner

Date: November 24, 2014

By: /s/ Peter Evensen
Peter Evensen
Chief Executive Officer and Chief Financial Officer
(Principal Financial and Accounting Officer)