# TEEKAY OFFSHORE PARTHERSHIP LP

**Moderator: Peter Evensen**
**August 6, 20150**
**11:00 am CT**

Operator: Welcome to Teekay Offshore Partners Second Quarter 2015 Earnings Results Conference Call. During the call, all participants will be in a listen-only mode. Afterwards you will be invited to participate in a question and answer session. At that time if you have a question, participants will be asked to press star one to register for a question. For assistance during the call, please press star zero on your touch-tone phone. As a reminder, this call is being recorded. Now for opening remarks and introductions I would like to turn the call over to Mr. Peter Evensen, Teekay Offshore Partners Chief Executive Officer. Please go ahead, sir.

(Ryan): Before Mr. Evensen begins, I'd like to direct all participants to our Web site at www.teekay.com where you'll find a copy of the second quarter 2015 earnings presentation. Mr. Evensen will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward looking statements. Actual results may differ materially from results projected by those forward looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward looking statements is contained in the second quarter 2015 earnings release and earnings presentation on our Web site. I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, (Ryan). Good morning everyone and thank you for joining us on our second quarter 2015 investor conference call. I'm joined today by Teekay Corporation's CFO Vince Lok, Chief Strategy Officer Kenneth Hvid, and Teekay Offshore MLP Controller David Wong. During our call today I will be walking through the earnings presentation, which can be found on our Web site.

Starting on slide three of the presentation, I'll briefly review some of Teekay Offshore's recent highlights. We had another strong quarter as the Partnership generated distributable cash flow of 58.3 million and reported a healthy 1.06 times distribution coverage for the second quarter of 2015. For the second quarter of 2015, Teekay Offshore generated a cash distribution of 53.84 cents per unit. Importantly, management will be recommending a 4% increase to the partnership's distribution, effective for the third quarter of this year.

Looking at our offshore production business, we completed our largest acquisition to date with the acquisition of the Knarr FPSO from our sponsor Teekay Corporation on July 1st. Concurrent with the acquisition, we completed $550 million of equity financing, including 300 million of common units issued to our sponsor Teekay. Talisman, the customer on the Barg SPSO exercised another of its three year option, extending the firm period out to mid-2019.

In our offshore logistics business we were also busy during the quarter. We commenced our first charter of the unit for maintenance and safety, the Arendal Spirit, with Petrobras for a period of three years. We have now completed the acquisition of the six Harms long haul towage vessels, which we agreed to acquire earlier this year. You will notice the healthy results from this new segment have been broken out in our earnings release.

And finally, we have just taken over as the only operator of shuttle tankers for the transportation needs of oil companies operating offshore east coast Canada. On the next few slides, I will talk more about these exciting new projects.

Turning to slide four, in early July we completed the acquisition of the Knarr FPSO from Teekay Corporation for a price of $1.26 billion. Prior to completing the acquisition, we had arranged all of the necessary debt and equity financing required to complete the purchase of the unit and it's now producing on the Knarr field in Norway, which is operated by BG. The Knarr FPSO is expected to generate annual distributable cash flow -- or DCF -- of approximately $80 million, which will help support the 4% annualized distribution growth we will be recommending that I spoke about earlier.

Turning to slide five, the Arendal Spirit, our first unit for maintenance and safety commenced its three year firm, three year option charter contract in June with Petrobras. At the bottom of the slide, you will see the Arndell Spirit moored alongside an FPSO, which is undergoing required maintenance to ensure regulatory compliance of the unit and the continued production of oil from the field in Brazil.

As many of you have likely noticed while listening to the recent earnings calls from the oil majors who comprise the majority of our customer base, they are focusing their efforts on maintaining existing production rather than increasing exploration. We expect the majors will spend even more time and money maintaining existing fields, which have lower break even rates and should lead to greater demand for our services in the future. In order to better match the timing of our new build deliveries with expected contract awards, we've exercised our rights under the new building contracts to delay the delivery of these new buildings to the end of 2016 and mid-2017.

Looking at slide six, earlier this quarter we announced that Teekay Offshore had been awarded contracts to serve as the primary operator of shuttle tankers in the east coast of Canada via consortium, which includes the oil companies represented by their logos at the bottom of this slide. We're pleased that we were able to offer the consortium the most valuable solution and consider our new foothold to be of strategic value as new requirements will arise in this region for shuttle tankers.

The award of these contracts is also important for Teekay Offshore because we now have leading market positions in all three dynamically positioned shuttle tanker markets, namely the North Sea, Brazil, and now the east coast of Canada. The shuttle tanker service contracts we were awarded run for a minimum of 15 years. We've already taken over the shuttle tanker operations on behalf of the consortium and we will be utilizing one of our own existing tankers plus two in chartered to service the area's transportation requirements.

We will continue in this manner while we are constructing three Suezmax sized DP shuttle tanker new buildings. We've already made our 10% down payment on these vessels and the majority of the remaining payments will not be due until the vessels deliver in 2017 and 2018. Importantly for Teekay Offshore, this project extends our growth pipeline into 2018 and will help drive long term cash flow growth.

On slide seven, I'd like to take a moment to remind our investors of the high quality portfolio of forward revenues on which Teekay Offshore's cash flows are built. Our $8.4 billion forward revenue book has an average remaining contract length of approximately five years. As you can see from the circle to the left of this slide, 90% of Teekay Offshore's revenues are generated by our FPSO and shuttle tanker segments and collectively our FSO towage, UMS, and a few remaining conventional tankers only make up approximately 10% of our forward revenue portfolio.

Importantly, all our assets are critical to our customer's oil production needs and therefore we're confident that our contracts will be maintained, given the low marginal costs of producing oil from existing fields. Being in the production end with FPSOs that generate positive cash flow for our customers is very different from the exploration side, which has seen cancellation of drilling contracts that generate negative cash flow for oil companies.

We have shown you slide eight before. Teekay Offshore's business model has always been to focus on the defendable niche segments that service the production side of the offshore supply chain as opposed to the exploration side. The niche segments in which we operate have fewer competitors and generally a more balanced supply of assets, as they tend to be more bespoke or customized for the field. Our customers have no direct -- excuse me -- our contracts have no direct exposure to commodity prices and they are primarily fee based, all of which give us confidence that our earnings will remain insulated from oil price volatility.

The production part of the offshore value chain -- which is where Teekay Offshore assets are positioned -- is less sensitive to oil prices compared to the exploration phase. The majority of fields where we operate were developed many years ago and thus the majority of costs are considered sunk. In fact, the marginal cost for us to produce on many of these fields can be as low as a few dollars per barrel.

The global shuttle tanker fleet more or less matches the global offshore production, but with some reliance on taking conventional cargoes at times when fields are down for maintenance. In a strengthening tanker market, we've seen improving - improvement in our earnings with better paying conventional voyages which provides even more earnings stability.

On slide nine I'll review our financial results for the second quarter of 2015, comparing components of distributable cash flow for the second quarter of 2015 to the first quarter of 2015. And the full reconciliation of distributable cash flow to net income, please refer to appendix B of our earnings release.

Looking at the bottom line, we maintained a coverage ratio of 1.06 times during the second quarter of 2015, which was slightly lower than the first quarter coverage ratio of 1.10 times. The main factors contributing to the slight decrease in coverage ratio for the second quarter include lower shuttle tanker time charter revenue due to the re-delivery of the Amundsen Spirit during the second quarter and the sale of the Navion Hispania during the first quarter of 2015. An annual credit earned during the first quarter of 2015 from the Itajai joint venture for unused maintenance phase.

This was partially offset by higher towage vessel earnings due to a full quarter of earnings for the three vessels delivered during the first quarter and the delivery of two further vessels during the second quarter of 2015. And UMS earnings due to the commencement of the Arendal Spirit's time charter contract on June 7th and lower shuttle tanker operating expenses.

Turning to slide number 10, we provided some guidance on our distributable cash flow for the third quarter of 2015. Net revenues are expected to increase as a result of a $56 million increase from the acquisition of the Knarr FPSO from Teekay Corporation on July 1st and in an 11 million increase for a full quarter of operations from the Arendal Spirit UMS for Q3 2015 and in an $11 million increase from a full quarter of operations under the east coast of Canada contract.

These increases are expected to be partially offset by a $7 million onetime decrease in revenue due to a temporary shutdown on the Piranema Spirit for unscheduled repairs and a $14 million decrease in shuttle tanker revenue, mainly due to the expiration of a COA contract in the second quarter of 2015 and expected seasonal decrease in COA days and the scheduled dry docking of the Nanson Spirit.

Vessel operating expenses estimated maintenance CapEx expenditures and net interest expense are expected to increase, mainly due to the Knarr FPSO and a full quarter of operations of the Aredal Spirit UMS. Time charter hire expense is expected to increase by $7 million due to the in chartering of three vessels for the east coast of Canada contract.

Distributions added back related to the equity financing of new buildings and conversion costs is expected to increase by $2 million due to the expected installments and conversion costs to be made during the third quarter of 2015. Non-controlling interest share of distributable cash flow is expected to decrease by $2 million due to the expiration of a COA contract in the second quarter of 2015.

In distributions relating to preferred units are expected to increase by $5 1/2 million due to the $250 million convertible preferred unit that were issued in connection with the Knarr FPSO acquisition and distributions related to common and general partner units is expected to increase by $13 million due to the $300 million of common units issued to Teekay Corporation and the expected 4% increase on common unit distributions during the third quarter of 2015.

Our coverage ratio for the third quarter of 2015 is expected to be below 1.0 times, mainly due to the temporary shutdowns on the Piranema Spirit FPSO for unscheduled repairs and the seasonal decrease in COA days while scheduled maintenance occurs on the oil fields in the North Sea. However, with the return of the Piranema Spirit and increased COA days in the winter months we expect our coverage ratio to return to above 1.0 times in the fourth quarter of 2015.

Looking at the next few slides, we'd like to provide you with some insight into the current status of the financing markets that we rely on and the impact each is having on our financing plans. Starting with slide 11, I'd like to make a few key points about our contract portfolio. As I mentioned earlier, our forward revenue portfolio is over $8.4

billion, with an average contract duration of approximately 5 years and we have no direct commodity exposure.

Importantly, our customers have high switching costs, in part because there's few -- if any -- un-contracted FPSO units and our assets are relatively specialized, making it difficult and costly to substitute other units. At the moment, oil majors are focused on increasing or maintaining production, which contribute positive cash flow instead of increasing reserves. However, we believe longer term rebuilding reserves will become a focus area for the oil majors once again because the cheaper, on-land, non-conventional oil currently in vogue does not substantially increase reserves.

Teekay Offshore has a strong portfolio of future growth as I'll review on the last slide. And importantly, our banks are very supportive and their costs are - and our costs are decreasing as I'll run through on the next slide. At the bottom of this slide, we've created a chart that illustrates the disconnect between investor perception of our cash flow and reality. During the financial crisis in 2008 and 2009 Teekay Offshore's average yield increased above 12%, as indicated by the red line. And during this time, Teekay Offshore's cash flow -- illustrated by the blue bars -- did not materially change.

Fast forward to today and our current yield is again higher than it was in 2008 and 2009 and our cash flow has only grown and become more diversified since that time. And I should note the cash flow bar all the way to the right hand side of the chart is for the first six months of 2015 annualized and thus it doesn't include the cash flow from the Knarr or fully reflect the Arendal Spirit UMS.

Similarly, the red line does not include the 4% distribution increase management is recommending. So in summary -- as the box on the bottom states -- we see a replay of 2008, '09 when macro issues -- now oil price and fear of higher interest rates -- have caused investor retreat from energy -- and in Teekay Offshore's case -- a disconnect we believe between our equity yield and the underlying stability and growth of our businesses.

Turning to slide 12, while we're not immune, we feel we are well prepared to tackle the current situation. It begins with having a large portfolio of built in growth and we're making good progress toward financing it with debt and equity. While the yield on our equity has increased, it's important to point out that we're able to finance offshore assets up to 80% from commercial lenders, depending on the financing structure. And over the past number of years since the financial crisis and as the banks have strengthened, our margins have actually reduced by up to 150 basis points, which partially offsets the increased cost of equity.

And the structure of our capital expenditure is also important. Our capital expenditure payments are typically spread out over multiple years and because of the preferential terms from the shipyards, it is typically tail end weighted to the point where generally up to 70% of the payments due under our capital expenditure projects are due at delivery and we typically use our loan facilities to make this final installment payment. Furthermore -- now that the growth is happening directly at the Teekay Offshore level -- we've been raising equity as the installment payments are due and thus a substantial portion of the equity required to deliver the vessels has already been raised.

Looking at the table, I'd like to make a few key points. Of our total growth pipeline of approximately $2.4 billion we've already funded approximately 700 million, leaving approximately $1.7 billion of CapEx remaining to be paid. And this is spread out of the next three and a half years. We have committed or anticipated debt financings of approximately $1.4 billion and roughly half of the $1.4 billion of total debt financings has already been secured.

Lastly, in order to deliver all of our vessels, we only need to raise a minimum of $276 million over this period. As a result, even if we were to raise all of this equity at today's yield, it would have a minor impact on our overall cost of financing, and thus will not negatively impact our distribution increase plans materially over the next number of years.

So the next logical question is what is the status of our banks and do we think we will be able to raise the remaining $700 million in the bank market over the next few years? We continue to have strong support from our banks and export credit agencies -- or ECAs -- to finance quality projects and we see no reason why this will not continue. Two recent examples on slide 13 are evidence of our ability to raise finance for projects, even in Brazil.

We just signed an $800 million financing for the Libre FPSO projects, with strong support from seven of our international banks to finance the billion dollar FPSO, which will be owned by our 50/50 joint venture with Odebrecht Oil & Gas in Brazil. The FPSO will commence its 12 year contract with Petrobras and its international partners in early 2017.

We also just completed the $180 million financing of our Petojarl One or QGEP FPSO project. This $230 million project was financed with the help of international banks and an export credit agency. This project will commence its five year charter with another Brazilian customer in the latter part of 2016. The banks who finance these projects could see the relatively low break-even of these projects in today's low oil price environment.

And finally -- as mentioned earlier on the call -- the capital markets have remained open for Teekay Offshore and we recently completed a perpetual preferred offering in April and a convertible preferred offering in June. Wrapping up today's call on slide 14, we provide an update of our visible growth pipeline, which is currently comprised of approximately $2.4 billion of accretive projects that will drive future distribution increases.

The number of known growth projects has been reduced with the delivery of the Knarr FPSO and -- as I mentioned earlier -- this growth is spread over multiple years, which is beneficial because it reduces the amount of financing we need in any one period and because it will enable us to increase distributions through 2018. Thank you all for listening and, Operator, I'm now available to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing the star key followed by the digit one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. If you have signaled for a question prior to hearing these instructions on today's call, please repeat the process now by pressing star one again to ensure our equipment has captured your signal. We will pause for a moment to allow everyone an opportunity to signal for questions. Thank you. Our first question comes from Michael Webber from Wells Fargo. Please go ahead.

Michael Webber: Thank you. Good morning guys, how are you?

Peter Evensen: Hi, we're fine.

Michael Webber: Hey, Peter, I wanted to first touch on the contract extension for the Barg. And because you do have a fair amount of tenor associated with TOO residual value risk -- like with any MLP -- is, you know, is one of the bigger risks and this looks like the kind of quiet that - it's a pretty nice positive here, especially in this environment.

I'm just curious if you can talk about the - just how that process worked, especially what's going on right now and whether there is any, you know, modest compression on the return or just any sort of color around that data point, because it seems like it's pretty pertinent.

Kenneth Hvid: Hi, Mike, it's Kenneth. No, really, it's an option that Talisman had in the contract and it was extended exactly as per contract. The Barg unit is one of our units on the Norwegian continental shelf, as many of you are aware. So it's a unit that we were actually relaxed about whether it was extended or not. It's obviously a positive in this environment that it is and we consider it to be that, but at the same time it's also a unit that we are receiving a lot of inbound inquiry for fields in the North Sea where this unit can operate on. But now Talisman have extended and we're happy to serve as a ((inaudible)).

Michael Webber: So pretty straightforward. No hemming and hawing on their end or coming back to you on price or anything like that. It was pretty straightforward?

Kenneth Hvid: Yeah, it's - it was at the contract and exactly as per that.

Michael Webber: Okay, that's good to hear. Peter, I wanted to ask you a bit about Sevan and maybe better for the Teekay call but it's so important with you I kind of wanted to bring it up. You know, they, you know, hired strategic advisors and looking at different possibilities, including a sale and then kind of quietly it seems like it could be a pretty nice driver of value for Teekay, considering you're primary shareholder, especially when people like - I know Viera they're talking about looking for M & A targets and not finding anything.

So I'm just curious kind of as, you know, given your all's position how you think about that process, whether or not you think there could be a material value driver for Teekay and just any other thoughts around Sevan.

Peter Evensen: Well, I wish you'd asked me the call tomorrow on the Teekay Corporation call as Teekay Offshore benefits from being able to utilize the Sevan design. But if there is a sale of Sevan, we'll not directly benefit. But speaking for Teekay Corporation, that's something that Sevan has been public about that they have a process and we're the major shareholder, so if they consummate a deal, we expect to benefit from that.

Michael Webber: Well, Peter, something tells me I'll be on the Teekay call as well, so I will ask you then, too.

Peter Evensen: Please ask me on the Teekay call.

Michael Webber: Okay. I did want to ask -- finally and I'll turn it over -- around the - you mentioned in your - I guess your forward guidance the rolling off of one of the shuttle COAs. And not a ton of data out around that. I just wanted to figure out whether or not there is now any excess tonnage within that shuttle tanker fleet around that - the roll off of I guess a portion of the COA business? Whether or not if there is any excess tonnage that that can be redirected to eastern Canada. Just curious around that specifically. And forgive me if you've already touched on that and I missed it.

Peter Evensen: Well, actually that's where east coast Canada came in handy, because we actually took the one surplus ship that we had and we chartered it to east coast Canada. So it was actually kind of fortuitous. So it is actually - we're extremely tight for the next few years on shuttle tanker tonnage. So it actually is a good story as it relates to that.

What I would say is that we haven't done much work down in Brazil, so we're happy to get the east coast Canada project and because Brazil -- where we have our tonnage locked up -- they continue to have some surplus capacity, but that surplus capacity is not able to be utilized in the North Sea.

Michael Webber: Got you. And just so I'm clear, the incremental I guess non-continuing hit on the Q - in the next quarter they'll touch this - the timing gap between when that asset kind of went from COA business to going on to eastern Canada?

Peter Evensen: Yes.

Michael Webber: Okay, perfect. Alright, thank you guys for the time; I appreciate it.

Peter Evensen: Thank you.

Operator: Next question comes from Nick Raza from Citi Group. Please go ahead.

Nick Raza: Thanks again guys. Just a couple of real quick questions on your balance sheet. How much does your credit facility actually stand at right now in terms of what free capacity it has?

Male: Right now we've used up all the revolvers.

Nick Raza: Okay. Alright, and I'm assuming that the debt covenance is sort of similar to TGP where it's primarily 5% of the debt outstanding should be held in cash.

Male: That's correct. So about - a little over half a million.

Nick Raza: Okay, fair enough. Fair enough. Then on the Canadian contracts, you mentioned that you had a 15 year contract. Has that already begun or does that begin once the new builds arrive?

Kenneth Hvid: Yeah, there is an existing operator over there right now, so what we've been asked to do by the consortium of the operators and the oil companies there is basically to take over the management of that contract. So we'll be the liaison between the owner of the two vessels that are operating form the other owner into the customer and then -- as Peter mentioned we've also moved one of our own vessels over there to service them. So essentially it has commenced now, but then there is a replacement program that we put in place where we'll ultimately deliver three new buildings that we have placed an order for and are constructing at Samsung shipyards in Korea.

Nick Raza: Fair enough.

Peter Evensen: And those three ships -- when they deliver -- will start 15 year contracts.

Kenneth Hvid: Correct.

Nick Raza: Fair enough. Fair enough. That's all I needed. So in terms of the UMS vessels -- the two that were delayed to sort of match the awards -- is there an incremental cost to delaying them? Storage fees? Something else that we should be looking at?

Peter Evensen: Yeah, we do have to - yes, we do have to pay a - I would call it nominal interest rate to have delivery. But that's far superior than taking - because it gives us the flexibility to match it up with contracts that we're - opportunities that we're working on.

Nick Raza: Fair enough, guys, fair enough. So just going back to the balance sheet -- and as mentioned for TGP -- thank you very much for providing a lot more detail. I think that's very helpful. But going forward, I mean, understanding that your coverage is a little tight and understanding that a lot of this debt is sort of permanent and keeps getting refinanced, I mean, what are you thinking about in terms of your credit facility, getting it sort of down to more acceptable levels.

And that's a question - the first part of the question. The second part of the question is you sort of issue a lot of debt into the Norwegian markets from our understanding. And have those markets been very accepting to such high leverage on these assets?

Peter Evensen: Well, first of all we don't think our debt is at unacceptable levels. So I take issue with the premise that you put in. We on the whole -- what I said was -- we can finance as high as 80%. That we did. When the - and therefore we were showing the minimum equity requirement. If the market stabilized up at bigger rates, you will find us layering in more equity or equity like instruments as you see with the preferreds that we've done. And so this is showing the minimum equity. But in all likelihood we will employ more equity or we'll employ debt short term and then take it out with more longer term equity as our share price normalizes.

And so what we're doing is just moving up and down the capital structure in order to get the lowest cost of capital and at the same time cut our risk. And - but what I would say is on some of the refinancing that we have -- like with the Barg -- we wait for the extension of the contract and then we refinance the facility. So our banks are very supportive and when we have - and generally when we're financing the contract goes longer than the debt, so you have to refinance because banks don't want to give you, you know, 13 year financing coming out.

And so that's just how we go about financing. But we feel very good about our ability to access the markets because that the banks are seeing that their financing contracts, they're not financing speculative cash flow.

Nick Raza: Thanks. So was there a - was there a potential if you guys wanted to do more debt in the case of the FPSO Knarr drop down?

Peter Evensen: There we have pre-arranged - that was the drop down from the parent and the parent had arranged financing, which we took over. And that was part of the existing financing.

Nick Raza: Right, so you had 745 million of assumed debt and then I think you sort of did a convertible 492 million, 300 million of which was already converted, 192 which will be converted by July 2016. But I guess my question is that 492 remaining, could you go and just, you know, finance more debt as opposed to the equity issuance to the parent?

Vince Lok: Yeah, this is Vince. Let me just clarify the financing of the Knarr as you said -- 745 of that was the assumed debt. The rest of it was 550 million of equity, 300 of which went to the parent and then 250 in a convertible preferred to institutional investors. I think what you were referring to in the 492 is the vendor financing that was only outstanding for a few weeks prior to the issuing of the equity in July after the Q2 record date. Of that vendor financing, only about 100 of that is still remaining at this point in time.

Nick Raza: Okay. But I guess my...

Peter Evensen: And the other point I would add to that is that of the equity we finance, we actually use some of it in order to put the down payments down on the shuttle tankers. So...

Nick Raza: Right, completely understand.

Peter Evensen: We ((inaudible))...

Nick Raza: I guess the question is more along the lines of could you have done more debt?

Vince Lok: On the Knarr itself? No. If you look at the solidity the original amount was prior to the drop down - I think the original amount in the debt was over $800 million. And so that's roughly kind of what you would expect for an asset like that, which is about 75% debt financing on a secured basis.

Nick Raza: Okay. Fair enough, fair enough. And what was the down payment? Do you have any sense of what that down payment was for the Canadian vessels?

Peter Evensen: Ten percent.

Nick Raza: Ten percent?

Male: About $35 million.

Nick Raza: Alright, that's all I got. Thanks guys.

Peter Evensen: Thank you.

Operator: The next question comes from Ben Brownlow from Raymond James. Please go ahead.

Ben Brownlow: Hi Peter.

Peter Evensen: Hi.

Ben Brownlow: Just wondered if you could touch on the - switching to the towage vessels. I know you were seeing some pretty healthy activity there and just update us on the delivery timing, interest level, and specifically regarding longer term bids of kind of six month contract. And I know it's a relatively small contributor to the earnings profile, but just trying to get a sense of the demand there.

Kenneth Hvid: Yeah, it's Ken here. So what happened this quarter was we took delivery of the ((inaudible)). So we are now taking delivery of the entire fleet. And the last one happened I think...

Male: July. Early July.

Kenneth Hvid: In early July. So we really just completed that at the very end of - beginning of Q3 here. I think we've been surprised by the strong demand. In Q2 it was actually a little bit better than we expected, which is reflected in the numbers that we have. Our strategy has always been that we wanted to take delivery of these vessels and book them on forward jobs starting in 2017, '18 and we are still working on a number of projects for those tows at the moment. So that's really going as expected. And in the interim the plan was always to spot - or to charter them out in the spot market. And that's simply been stronger in Q2 here than what we expected.

Ben Brownlow: ((Inaudible))...

Peter Evensen: ((Inaudible)) as part of the contract when we bought it we got a reserve should the earnings not meet certain minimums, which gives us a chance to build a forward order book, which is what's attractive about the sector to us.

Ben Brownlow: Alright. And just on the M & A front, is that opportunity set still tilted toward customer owned assets versus charter assets and are you seeing any notable dislocation or growth opportunities just in general between - if you can give some color around what you're seeing with vessel ((inaudible)) and opportunities.

Kenneth Hvid: I think if you look across the sectors that we're in, we're probably seeing more opportunities in the ((inaudible)) and the - in particular the FPSO space. That's simply where we have bigger units and more opportunities. I think the shuttle thing side is more or less consolidated as - and we don't see a lot of opportunities there. We would prefer to work on and are focusing on units that are owned by our customers and that's our first choice. So those are the ones we would target initially.

Ben Brownlow: Alright, thank you for the color.

Peter Evensen: Thank you.

Operator: Ladies and gentlemen, as a reminder if you would like to ask a question, please press star one on your touch-tone phone. The next question comes from Spiro Dounis. Please go ahead.

Spiro Dounis: Hey, good morning. Or, sorry, good afternoon gentlemen. Thanks for taking the question. Just one quick one from me on east coast Canada. You mentioned that maybe services could increase there with volume growth and I guess initially that might look like more shuttle tankers coming on. But I suppose that could also be FSOs, FPSOs, and really anything that you do now. But just wondering in terms of the volume increase itself, is there any sort of metric you can give us as we're watching the volumes grow there that might indicate that maybe another shuttle tanker could be ordered if it - every 100,000 barrels a day increase or anything you could provide there.

Kenneth Hvid: Yeah, I think the angle here -- what really important to focus on -- it's the optionality that it creates for us being in that market. The east coast Canada market is a market that is difficult to move in and out of. Either you have an establishment there or you don't. And part of it has to do with the requirement to use Canadian seafarers and of course -- as you can imagine -- on the east Canada off Newfoundland there's a relatively limited pool of people. The fact that you have the platform is valuable and that's what we think we can build on.

There are a couple of developments -- as you're probably aware -- off the east coast of Canada that various oil companies are looking at that will - that has a high potential of happening in - during the time period that we have these charters on. And that's really what we - that - what we're optimistic about.

Ben Brownlow: Got it. That's helpful. And maybe just a follow up on that. And I realize a lot of the development cost there is sunk already -- like you said -- but just wondering if you were able to get any indication at all what may be cash flow break evens might be for the oil producers there?

Peter Evensen: Sorry, could you repeat that?

Ben Brownlow: Sorry, yeah. I know you mentioned that for a lot of development it's a sunk cost at this point. So it's going to happen in most cases. But just wondering if the producers there were able to give any indication in terms of what the cash flow break evens per barrel are in that region - or what they might be.

Kenneth Hvid: No, we don't have that. I think back to the option question. I mean, as we also mentioned we have one option for a vessel that our customer has here that could be exercised in terms of magnitude, what we see in the near term. And then looking further out it obviously all depends on the development - the timing of the development of the other surrounding fields that are in the area.

Ben Brownlow: Got it. That's it for me. Thanks guys.

Peter Evensen: Thank you.

Operator: There are no further questions at this time. Please continue.

Peter Evensen: Alright, thank you very much for listening today and I hope we've shown you that we have fee based contracts and a great level of stability and we look forward to talking with investors about the story that we think is compelling for Teekay Offshore. Thank you very much.

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

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