



TEEKAY OFFSHORE PARTNERS' THIRD QUARTER 2017 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Offshore Partners LP

Moderator: Emily Yee

Date: Thursday, 9 November 2017

Operator: Welcome to Teekay Offshore Partners' Third Quarter 2017 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 touchdown phone. As a reminder, this call is being recorded. Now, for opening remarks and introductions, I would like to hand the call over to Ingvild Saether, Teekay Offshore Group's President and Chief Executive Officer. Please go ahead.

Scott Gayton: Before Ingvild begins, I would like to direct all participants to our website at www.teekayoffshore.com, where you will find a copy of the third quarter of 2017 earnings presentation. Ingvild will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward-looking statements. Actual result 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 third quarter of 2017 earnings release and earnings presentation available on our website. I will now turn the call over to Ingvild to begin.

Ingvild Saether: Thank you Scott. Hello everyone, and thank you for joining us on our third quarter investor conference call. With me today, I have David Wong, the CFO of Teekay Offshore Group and Scott Gayton, Teekay Corporation's V.P. Finance. We will be going through the Earnings Presentation, which



you will find on our website. Please turn to slide three of the presentation. I will review some of Teekay Offshore's recent highlights.

In the third quarter, the partnership generated distributable cash flow or DCF of 13.4 million or 8 cents on a per unit basis. Cash flows were lower than expected during the third quarter as a result of various nonrecurring items and timing differences. David will touch on this in more detail later in the presentation. In addition, for the third quarter, we recognized some impairment charges. This is mainly due to cost overruns on the Petrojarl 1 FPSO upgrade project and charter expiration on the Ostras FPSO in January 2018, which I will discuss later on the call. In September, we completed the transaction with Brookfield that we first announced in July. This transaction significantly strengthened Teekay Offshore's balance sheet. In early October, the Randgrid FSO commenced its charter. We also took delivery of the first two shuttle tanker newbuilding, the Beothuk Spirit, which is pictured on this slide and sister vessel, Norse Spirit. In addition, we took delivery of the ALP Sweeper. This is the third out of our four state-of-the-art towage vessel. Finally, during the past week, we entered into a heads of terms with Premier Oil to extend production for the Voyageur Spirit FPSO on the Huntington field for at least one year, to April 2019.

If we now turn to slide four, with the recent vessel deliveries and contract start-ups over the next couple of quarters, we are now in the final phase of delivering the growth projects we were awarded between 2013 through 2015. We are transitioning from project execution to operation. While we have had execution issues to overcome on certain projects, we are now moving into an operational phase that will allow us to harvest our efforts as these projects begin to generate significant cash flows. As I noted in my opening remarks, the Randgrid FSO is now on charter with Statoil and the Gina Krog field is producing very well. We offloaded the first cargo last week. When Statoil officially opened the field some weeks ago, they made the statement that they expect the field to produce for at least 15 to 20 years. The Libra FPSO is currently being hooked up to its field. We have connected the umbilical and are now in the process of installing the risers. Petrobras expects to achieve first oil by end of this month. We have just taken delivery of the first two East Coast Canada shuttle tankers, which are currently en



route to Newfoundland via the Panama Canal. These vessels will commence charter contracts with the consortium of nine oil companies in December and January respectively. And the third vessel will deliver in the first quarter of 2018.

Lastly, the Petrojarl 1 FPSO upgrade is in the final stages of mechanical completion. Despite issues with the Damen shipyard that has required us to move the Petrojarl 1 unit to the Aibel shipyard in Norway for completion, the project remains on track to commence the charter with QGEP on the Atlanta field offshore Brazil during the first quarter of 2018. In aggregate, these projects are expected to generate approximately \$200 million of new annual cash flow from vessel operations, once all vessels have delivered.

If you now turn to slide five, I will provide updates on some important developments underway in our FPSO and shuttle tanker businesses. Starting with our FPSO business, this past week, we signed a heads of terms with Premier Oil to extend production on the Huntington field in the UK sector from April 2018 until at least April 2019. From early 2019, Teekay Offshore and Premier will both have a three-month termination rights. We are pleased that we have found a good solution where the interests of Premier and Teekay are aligned. Premier needs flexibility to extract maximum value from the field and we can keep the unit in operation and can at that same time prepare for the next employment of the unit in what we hope will be an improving macro picture in the offshore energy market.

Looking at our other near term FPSO charter maturity, unfortunately our existing charter for the Ostras FPSO with Petrobras has not been extended. We are now planning for the redelivery of the unit at the end of the original contract term in January 2018. This versatile early well test FPSO unit is well suited to various field developments, both for heavy and lighter oil, and we are actively seeking redeployment opportunities not only in Brazil, but worldwide.

Switching to the shuttle tanker business, I am pleased to report that our North Sea CoA fleet is starting contracts at higher rates. The Schiehallion field and the Kraken field are both producing now. The



Catcher FPSO arrived at the Catcher field in late October and Premier Oil is currently indicating the field is on track for first oil by the end of 2017. Each of these new contracts will increase our average daily shuttle tanker rates. I will now turn it over to David to discuss our outlook for the fourth quarter of 2017.

David Wong: Thank you Ingvild. If you turn to slide six, we expect a significant improvement in cash flows in the fourth quarter, primarily due to the start-up of our growth project including the Randgrid FSO in early October, the expected first oil from the Libra FPSO at the end of this month, the arrival of one East Coast Canada shuttle tanker newbuild at the field in December and the receipt of liquidated damages due to delayed delivery of the ALP Sweeper towage vessel.

Our fourth quarter cash flows will also not include some one-time expenses we incurred during the third quarter related to the Brookfield transaction and severance costs associated with the de-manning of the Arendal Spirit UMS. We expect to reduce our run rate operating expenses for the Arendal Spirit UMS from \$50,000 a day to below \$10,000 per day. We also realized distribution savings during the fourth quarter due to the repurchase of the Series C1 and Series D preferred equity units as part of the Brookfield transaction. These improvements are expected to be partially offset by one-time repair and maintenance costs related to the recently redelivered DP1 shuttle tankers from their bareboat charters in Brazil to prepare them for trading in the conventional market. Overall, we expect the DCF to more than double in the fourth quarter compared to the third quarter and this is expected to grow further as the rest of our growth projects begin to generate cash flows. I will now turn it back to Ingvild to conclude.

Ingvild Saether: Thank you David. If we now turn to slide seven, over the course of 2017, we have started to see green shoots of recovery in the offshore market. Oil prices are above \$60 per barrel for the first time since July 2015 due to the combination of strong oil demand and OPEC supply cuts. We believe that the fundamentals point towards continued support for oil prices in the near term, which should be positive for new offshore oil investment. We have also seen significant decrease in oil field development costs across the offshore space, resulting in much lower field break-evens than in the



past. For example, in Brazil, we understand that Petrobras is now targeting a break-even price of \$35 per barrel for the Libra fields. In the Barents Sea, Statoil is targeting a break-even as low as \$30 per barrel for the Johan Castberg field. These are just two examples of oil fields, which will be developed by FPSO and where shuttle tankers are being used for transportation. These developments are now cost-competitive with other types of production including US shale. A combination of higher oil prices and lower field costs are leading to an uptick in new FPSO contract awards as shown by this chart on this slide. After a year of zero contract awards in 2016, we have already seen seven contracts in 2017. We forecast seven to eight new contracts per year to the end of the decade. We are also seeing renewed activity on the shuttle tanker side with Petrobras currently tendering for new vessels to serve upcoming field developments of Brazil.

In summary, we are encouraged by recent developments in the oil market and the offshore space. There will likely be further bumps on the road to recovery, but we believe that the worst of the recent market cycle may now be behind us. Wrapping up, our focus is now on positioning our business for the next phase of the offshore market cycle and the recent green shoots give us reason to be optimistic. Operator, we are now available to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If using speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question and we will take our first question from Michael Webber with Wells Fargo Securities.

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

Ingvild Saether: Good morning Mike.

Michael Webber: Hey, I wanted to start off with the Voyageur and the extension you guys have signed with Premier Oil, can you give a bit of color around – around the rate and maybe in terms of the yield,



uh, and then, I guess any, any expectation that you will certainly – whether you would be able to get that redeployed following that year on that field or whether you are done, or whether that field is basically tapped to that point, you have got to redeploy it elsewhere and if there are things you can do in the meantime to kind of get that, get that asset ready?

Ingvild Saether: So, we are very pleased with the outcome on the discussion on the Voyager because it helps our customer to extend the field and we can keep the unit going and our interests are aligned. We still, it's – it's still a heads of term and also waiting a signed contract so it's difficult to comment on the commercial elements of the extension.

Michael Webber: Oh sure, maybe if you, if you can count the commercial elements that you would expect relative to the rate it's currently on, just to give us a kind of ballpark expectations for what to expect on that asset?

Ingvild Saether: The rate is a bit lower than what we have on the existing contract and there will be a variable element that will be linked to the level of production.

Michael Webber: Okay, alright, that's helpful. I mean I guess looking at the other FPSO, the Rio das Ostras redelivering in Jan. It's not a great, not a great kind of liquid proxy for role of a risk in the space but just the same kind of question around, around your expectations for that asset and then specifically around the, any sort of, what your expectations are for how quickly you can get that redeployed from a baseline perspective, maybe from a budgeting perspective, even just better, more of an H2, 18 event or do you think there are opportunities to get it redeployed in the first half of the year?

Ingvild Saether: Yeah, so we were hopeful that unit would remain within the Petrobras system, but due to Petrobras' stringent tender requirements, we were advised that unit could not be extended without running a full tender process. So, this is a quite flexible unit, which can operate both on heavy oil fields



and the lighter oil fields. We are marketing it to both in Brazil and worldwide, but I think it is prudent to assume that it might not be a 2018 event to get this on contract, being realistic about it.

Michael Webber: Got you. Just from a modelling perspective, I mean what should we expect in terms of, in terms of lay-up costs on that asset or operating expenses for that asset for the bulk of 18 if you are just actively searching for redeployment. We haven't had this much come up as much in Brazil as we have in the North Sea, so just look for a kind of what the right market proxy should be.

David Wong: Yeah, I think from a lay-up perspective, we are probably looking consistent to the Voyageur which is around, sorry Varg, which results to about five to six million dollars a year in lay-up costs.

Michael Webber: Okay, great.

David Wong: Just to go back like about your question about Voyageur with the extension, which we are very happy about. The unit is producing around ten thousand barrels a day, so it's a good production level. The fact that the contract, while it is extended for a year and has the ability to continue on with Premier if the oil continues to be producing, or if they decide to drill so that could extend it as well. So, it really allowed some additional time for the unit to be generating cash flow. There is opportunity for extensions and we also, as Ingvild mentioned in her remarks, see oil prices and the FPSO market and the offshore markets improving, gives us the opportunity to push out the day to where we need to look at further redeployment for that unit as well.

Michael Webber: Okay, great. Thanks, I will turn it over. Thanks for the time guys.

Ingvild Saether: Thank you Mike.

Operator: We will take our next question from Spiro Dounis with UBS Securities.

Spiro Dounis: Hey, good afternoon, thanks for taking the question. I want to stay with FPSOs and maybe talk about the Varg and, and the Piranema. First one on the Piranema, I think early 2019 is when that charter comes up. So, along way that, I mean a lot of change in your landscape, but just curious if you are sort of thinking about what's going on with that field. How do you think about the potential that the unit gets redelivered as well?

Ingvild Saether: Yeah, so this is a fixed contract that goes out to 2019 with the Petrobras and they have a number of options after that. And it's really too early to have a view on how many of those options that will be declared at this stage.

Spiro Dounis: Okay. And just as far as the Varg goes, and I think there are potential FEED study being done there with it, with a counterparty. How is that progressing? Any update you can offer on that front?

Ingvild Saether: Yeah, we have done a FEED study for Alpha Petroleum to assess the Varg FPSO for the Cheviot field. There are still a number of things that need to fall into place to move it to formal contract, and we are still not yet there where we have ticked all the boxes.

Spiro Dounis: Okay, would you say that's maybe a 1 Q event or hard to say at this point?

Ingvild Saether: Probably beginning of next year, yes.

Spiro Dounis: Great. Last one from me, just on the Arendal Spirit, obviously you got some time, a bit of runway with respect to the repayment there, but just curious over the last few months, have you seen any green shoots in that front as far as rechartering the UMS?

Ingvild Saether: I think it's too early to say that we see green shoots in that specific segment. Well, what's driving that market is the need for maintenance for the oil companies and we believe that there is quite



a backlog of that and this is a segment where there are relatively few units so the market could come back quite quickly. But I think we haven't seen best uptake in activity yet.

Spiro Dounis: Okay, and actually just – just one more if you don't mind. Just as far as its growth goes to your point before, it seems like the oil prices is coming back here a bit and things are looking a little more positive and just given you are coming out of what was a pretty challenging time, kind of curious on what you think your capacity is to grow here obviously with Brookfield, that is, greatly enhanced especially on the shuttle side, but how are you thinking about if opportunities combined on financing those and capitalizing that?

Ingvild Saether: So, I think we see a number of interesting opportunity in our space coming up and we will have a conservative approach to a sustainable growth. I don't know if you want to add something, Scott, on that?

Scott Gayton: No, I think that there will be capacity for us to continue investing in our space. We obviously have more to digest between now and the earlier part of next year, but we are working closely with them to actually start to develop plans for growing in our segments and trying to take advantage of opportunities as the overall market is strengthening.

Spiro Dounis: Great. Good for me. Appreciate the call.

Operator: For our next question, we will go to Bendik Engebretsen with Danske Bank. Mr. Engebretsen, check your mute function, your line is open.

Bendik Engebretsen: Do you hear me now?

Ingvild Saether: Yes, we hear you now.

Bendik Engebretsen: Yes, thank you very much. Thank you for taking the question. Sorry about that. A couple of questions from me. Can we expect to see any restated accounts where the ShuttleCo is excluded?

Scott Gayton: No, we don't, there will not be separate accounts for Teekay Offshore, however, as part of the bond reporting, we will be providing standalone Teekay Shuttle Tanker statements.

Bendik Engebretsen: Okay, thank, alright. Alright, moving on, apart from the debt related to the Arendal Spirit UMS to the Petrobras maturing in, by September next year, what is the short-term debts of 790 million related to?

David Wong: Yeah, the Arendal Spirit debts will be all current on the balance sheet so that it will be there. We paid down the 30 million dollars to, as we talked about part of the Brookfield transaction.

Bendik Engebretsen: Right, so the remaining 790 million, can you talk a bit about which facilities these are related to?

David Wong: The debt facility on Arendal Spirit will be about 80 million dollars on the balance sheet in the current portion.

Bendik Engebretsen: Right, okay. So, this remaining 790, this remaining 790, yeah.

David Wong: Can you repeat your question? It's hard to hear you there.

Bendik Engebretsen: Yeah, sorry, as far as I see on the balance sheet this quarter, it seems like there is 790 US dollars, million, on the short-term debts. Are these – what are these, this debt facility related to?



David Wong: Yeah, the short-term debt relates to the revolvers on our ShuttleCo as we have that new revolver that we will amortizing over five years, 100 million. We have amortization of various FPSO debts related to like Knarr, and then of course we have the larger, or the FPSOs that – that are coming due off contract like the Ostras and Voyageur, which we will hopefully get some extensions now. But those are debts coming in the current portion as well.

Bendik Engebretsen: I see, alright, thank you. Alright, last question. In one of the presentations in connection to the Brookfield transaction, the company stated that you had forward revenues of approximately 3.9 billion and forward cash flows from vessel operations totalling approximately 2.6 billion. Aside from the Voyageur, potential Voyageur extension, are there any other significant changes to this backlog to your guidance?

David Wong: No, I would say that based on what you see is consistent with what you see other than the Voyageur extension right now.

Bendik Engebretsen: Alright, so thank you very much.

Operator: For our next question, we will go to Fotis Giannakoulis with Morgan Stanley.

Fotis Giannakoulis: Yes, thank you. I just want to follow up on a couple of questions about the Voyageur extension. If you can try to give us a description of what are the items that the tick boxes that they have to be completed in order to secure this contract?

Ingvild Saether: It was about the Varg or the Voyageur? Sorry, Fotis.

Fotis Giannakoulis: If you can comment on both. And also, if you have an estimate of the conversion cost or the deployment cost for the Varg if this contract is signed?



Ingvild Saether: No, we can't really comment on that now. As I said, there are a number of things that need to fall into place, like the conversion costs, the financing of the field and there are still a couple of boxes that need to be ticked before we know if this will go ahead or not.

Fotis Giannakoulis: And regarding the Voyageur?

Ingvild Saether: Yeah, regarding the Voyageur, as I said, we have signed a heads of terms and we don't have a signed contract. So, it's difficult for us to comment on the commercial element of the extension, but what I can say is that it has a fixed and variable element that aligns the parties to keep the unit on the field as long as it creates value for both parties.

David Wong: Yeah and there is no capital requirement to keep that on the field for this extension so we will continue to operate it as we always have.

Fotis Giannakoulis: That's very helpful. This applies only for the Voyageur or also for the Varg if there is final agreement and if this project goes ahead?

David Wong: Related to the Varg, there would be capital extensions to upgrade the unit both for life extension and to support Alpha for field specific work related to the Cheviot field. As Ingvild said, we are not getting into the details relating to those costs but then we would have some upgrade works to be done there.

Fotis Giannakoulis: Okay, thank you very much.

Operator: We will take our next question from Jerry Zhu with Citi.

Jerry Zhu: Hey guys. So most of my questions have been answered, but just a quick follow-up on through I guess the macro landscape at how it would affect the, maybe the process of the speeding up of the



delivery of the Varg, If prices were to, oil prices were to go up significantly over the next few months, would that affect the timing of the delivery at all or that's more or less the beginning of like 2018 or what I think there was number or time that you gave, will that change at all?

Ingvild Saether: So, if I got your question correctly, you asked when we can be in operation with the Varg unit?

Jerry Zhu: Basically, yeah, if the prices were to go, if oil prices were to go up substantially over the next few months, would that have any effect or that sort of set in stone in terms of the timing?

David Wong: Yeah, well, no I mean as you are probably aware, we are under an exclusivity agreement to, with Alpha related to the Varg unit for the Cheviot field. We will be working through the FEED and that essentially would allow if we continue with that to start oil up in, I would say late 19, early 20. But I could say that related to the unit, I mean it's NORSOK compliant so it's good for the North Sea. There is interest in the unit and we are – we feel very confident that there will be good opportunities for that unit to be employed in the North Sea. So, whether it would make it faster, I think we would have to go through the due diligence process on what we need to do in order to get it out there, but I think absolutely good opportunities for it.

Jerry Zhu: Awesome, great, that's all I had guys, thanks.

Operator: That concludes our question and answer session. At this time, I will turn the conference back to Ingvild Saether for any final remarks.

Ingvild Saether: Thank you. So, with a stronger balance sheet, access to capital, market leading positions, and strong operational platforms, we believe we are well positioned to benefit from future opportunities in the global – when the global energy market recovers. So, thank you for joining us on this call today.



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