TEEKAY SHIPPING (CANADA) LTD.

Moderator: Emily Yee
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Operator: Good day and welcome to Teekay Corporation's Second Quarter 2016 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 1 to register for a question. For assistance during the call please press star 0 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's President and Chief Executive Officer. Please go ahead, Mr. Evensen.

Ryan Hamilton: Before Mr. Evensen begins, I would like to direct all participants to our Web site at www.teekay.com where you will find a copy of the second quarter 2016 earnings presentation. Mr. Evensen will review this presentation during today's conference call.

Please allow me to remind you that this presentation contains forward-looking statements. Please review the forward-looking statements on the slide presented. I will now turn over the call to Mr. Evensen to begin.

Peter Evensen: Thank you, Ryan. Hello, everyone and thank you for joining us today for Teekay Corporation's second quarter 2016 earnings conference call. I am joined this morning for the Q&A session by our CFO, Vince Lok; the CEO of TK Offshore Group,

Kenneth Hvid; and our Group Controller, Brian Fortier. During our call today, we will be taking you through the earnings presentation which can be found on our Web site.

Beginning on slide 3 of the presentation, I will briefly review some recent financial highlights for Teekay Corporation. During the second quarter, we generated consolidated cash flow from vessel operations, or CFVO of approximately $351 million, slightly lower than the same period of the previous year. However, our results exceeded our expectations mostly due to higher shuttle tanker utilization, higher spot tanker rates and lower operating expenses mainly in our FPSO segment.

Teekay Corporation reported consolidated adjusted net income of $700,000 or 1 cent per share in the second quarter, compared to an adjusted net income of $20 million or 27 cents per share in the same period of the prior year. For the second quarter of 2016, Teekay Corporation declared a cash dividend of 5.5 cents per share, consistent with the previous quarter's dividend.

I am pleased to report that in June of 2016, Teekay Parent and Teekay Offshore completed over $1 billion of financings and other initiatives announced during our previous earnings call in May. As I will detail later in the presentation, Teekay Offshore now has financing in place for all of its existing growth projects and Teekay Parent has significantly reduced its financial leverage and increased its liquidity. Including all these initiatives, Teekay's consolidated liquidity has increased to $1.1 billion as of June 30.

Turning to slide 4. I will briefly touch on some recent business highlights for Teekay Parent. In June we reached agreement to sell Teekay Parent's last remaining

conventional tanks, the Shoshone Spirit VLCC, for gross proceeds of approximately $63 million, which is expected to further reduce Teekay Parent's financial leverage. The vessel is expected to continue operating under its existing time-charter contract earning $49,000 per day until its delivery to the buyer between late September and early October 2016.

In July, we secured a short-term charter commencing in August for the Polar Spirit LNG carrier, which Teekay Parent in-chartered from Teekay LNG. The other LNG carrier chartered in from Teekay LNG, the Arctic Spirit, remains in lay-up. We are looking at multiyear contracts for both of these niche trade vessels in China with expected startup as early as the first quarter of 2017.

Lastly, the Hummingbird FPSO has been operating in the latter part of its charter contract with Centrica Energy on the Chestnut filed in the U.K. sector, where Centrica could terminate the contract at any time with 90 days' notice. In June, we entered into a contract amendment with Centrica to extend the firm period to September 2017 in exchange for a lower fixed charter rate but with upside accruing to Teekay through an oil price tariff. This contract extension allows us to avoid laying up and certain decommissioning costs while maintaining optionality as Centrica continues to assess their options with the Chestnut field and we retain upside through the oil price tariff.

Turning to slide 5. I will review some recent highlights from our three publicly traded daughter entities. For the second quarter, Teekay Offshore Partners generated distributable cash flow, or DCF, of $46 million, resulting in DCF per limited partner unit of

42 cents. For the second quarter, Teekay Offshore declared a cash distribution of 11 cents per unit, resulting in a distribution coverage ratio of three times.

As mentioned earlier, the partnership has completed $600 million of financings and other initiatives. And as I will detail later in the presentation, Teekay Offshore has now secured debt financing for all of its existing growth projects and with these financing initiatives, the partnership has also addressed its near and medium-term debt maturities.

At June 30, 2016, the partnership had total liquidity of $421 million. As part of the financing initiatives completed in June, Teekay Offshore's subsidiary, Logitel, cancelled the shipyard contracts for the two remaining units for maintenance and safety or UMS, which have been under construction in China, eliminating approximately $400 million of capital expenditures. And on a related note, I am pleased to report that Teekay Offshore's existing UMS, the Arendal Spirit, went back on-hire with Petrobras in early July following the replacement of its gangway which was damaged in late April.

For the second quarter, Teekay LNG Partners generated DCF of $76 million, up 16% from the same period of the prior year, primarily due to a favorable settlement related to an LNG carrier charter contract termination dispute in the partnership's 52% owned Malt joint venture of which Teekay LNG's proportionate share was $20 million.

For the second quarter, Teekay LNG declared a cash distribution of 14 cents per unit, resulting in a strong distribution coverage ratio of 6.7 times. With the recent delivery of Teekay LNG's second MEGI LNG newbuilding, the Oak Spirit, which commenced its

five-year charter contract with Cheniere Energy on August 1, the partnership has now delivered both MEGI LNG newbuildings to Cheniere.

The Oak Spirit will transit the new expanded Panama Canal on its maiden voyage to the U.S. Gulf to pick up its first cargo from Cheniere at Sabine Pass. The partnership's Exmar LPG joint venture took delivery of its seventh of its 12 mid-size LPG carrier newbuildings. And this vessel will commence its five-year charter to Statoil in August, transporting LPG around the North Sea.

I am also pleased to report that Teekay LNG continues to make significant progress on the partnership's debt financings related to its committed growth projects. Since May of 2016, the partnership has secured lender credit approvals on over $900 million of new debt financing, including three MEGI LNG carrier newbuildings, the first two Yamal Arc7 newbuildings and all of its remaining mid-size LPG carrier newbuildings.

Teekay Tankers generated adjusted net income of $31.6 million or 20 cents per share and free cash flow of approximately $60 million. Teekay Tankers reported strong results despite a decline in crude tanker rates during the quarter, which were impacted by a combination of seasonal factors and reduced oil supply due to temporary outages in key export regions in the Atlantic basin that have continued into the third quarter.

Although rates are trending lower during the summer months, which is typical for this time of year, we still expect the seasonal uptick during the fourth quarter as we have seen in previous years.

Stronger oil demand during the northern hemisphere winter and an increase in weather delays will act as catalyst for this uptick, while low prices should be positive for both global oil consumption and stock piling during the second half of the year. Yesterday, Teekay Tankers declared a cash dividend of 6 cents per share based on 30% of its second quarter adjusted net income.

In June, Teekay Tankers agreed to sell one of its non-core MR product tankers for proceeds of $14 million, which when combined with the cash flow generated during the quarter, is expected to further delever Teekay Tankers balance sheet.

Teekay Tankers has also continued to manage its fleet employment mix using a variety of levers. Since May, Teekay Tankers has secured four additional time charters which increases its fixed rate cover to approximately 30% over the next 12-months, as well as locking in cash flows at attractive levels, thereby reducing overall cash flow breakeven time-charter equivalent.

Turning to slide 6. We have provided an overview of Teekay Parent's financing initiatives completed at the end of June, which has further delevered our balance sheet, increased our liquidity and enhanced our ability to continue strong sponsorship of our two MLPs, which we believe strengthens the entire Teekay Group. Our financing initiatives included $350 million of new bank refinancings, a $100 million of new common equity, and the sale of our 50% interest in the Prelude Infield Support vessels for $8 million.

Combining these financing initiatives with our expected sale of the Shoshone Spirit VLCC, Teekay Parent's net debt and financial leverage will be reduced to $535 million

and 38% as of June 30, respectively from $694 million and 45% last quarter. In addition, these financing initiatives have increased our liquidity to $355 million as of June 30, up from $148 million last quarter.

Turning to slide 7. We have provided an overview of the financing and other initiatives completed by Teekay Offshore at the end of June 2016. This includes $400 million of new bank financings and refinancings. Extending the maturities on two of its Norwegian bond series at the end of 2018, with some amortization payments being made in 2016, 2017 and 2018. $200 million of new preferred and common equity issuance, and the cancellation by Logitel of approximately $400 million of future CAPEX related to the two UMS units that were under construction and the sale and sale leaseback of its remaining conventional tanker assets.

These initiatives together with expected operating cash flow on previously arranged debt facilities, are expected to cover all of Teekay Offshore's medium-term liquidity requirements and fully finance all of the partnerships $1.6 billion of committed growth projects.

Our finance team assisted by multiple financial institutions, has worked hard over the last six months to secure these financing initiatives both at Teekay Parent and Teekay Offshore and they did a great job of sourcing and coordinating all of these financings.

And while I want to assure our investors that it was certainly not pleasant to raise equity at Teekay Corp and Teekay Offshore at these depressed price levels, we believe it was

the right thing to do because we have reduced the Teekay Parent and Teekay Offshore's financial risk at a time of great macro uncertainty in the energy space.

Turning to slide 8. We have provided an update of Teekay Offshore's proportionately consolidated run rate 2017 CFVO estimate. Incorporating latest assumptions on the delivery of its growth projects over the next year. With the delivery of Teekay Offshore's existing growth projects and realization of ongoing G&A and operating cost savings initiatives. Teekay Offshore expects to generate approximately $850 million of annualized run rate 2017 CFVO, which assumes the projects are operating for full year.

This represents an increase of 25% over the partnerships 2015 run rate CFVO. Turning to slide 9. We have provided an update on Teekay LNG's projected run rate CFVO, including the proportionate share from its equity accounted investments. Teekay LNG's CFVO is expected to grow moderately to 2017 with the delivery of various growth projects.

Given the backend loaded nature of TGP's newbuilding deliveries, from 2018 to 2020, Teekay LNG's run rate CFVO will really begin to ramp up post-2017 and we expect to add an incremental $250 million of annual run rate CFVO by 2020.

This significant cash flow growth at both Teekay Offshore and Teekay LNG, is expected to translate into higher cash distribution capacity in the future which will benefit Teekay Parent greatly to its general partner and limited partner ownership in both of these MLPs.

Thank you, for joining us on the call today and, operator, we are now ready to take questions.

Operator: Thank you. If you'd like to ask a question, please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make you're your mute function is turned off to allow your signal to reach our equipment. Again, please press star 1 to ask a question. Our first question will come from the line of Gregory Lewis at Credit Suisse. Please go ahead.

Gregory Lewis: Yes, thank you and good morning.

Peter Evensen: Hi, Greg.

Gregory Lewis: Again, I guess, while financing at that price wasn't, you know, ideal, at least it's done. You know, I wanted to talk a little bit more about, you know, you mentioned the Hummingbird Spirit. It looked like, you know, you were able to extend the work for that, so, you know, nice job on that. But I found it interesting that, you know, the term of the extension in terms of how you're being compensated, looks like it's changed a little bit.

And really just a big picture question, as we think about, you know, keeping some of these assets working, is this sort of something that we're going to see just in this part of the cycle where maybe you're taking a little bit of production risk, or is that something that, k as we think about in the future in a normalized market, is that sort of a new go forward contracting aspect of the business?

Peter Evensen: I would say that everyone is managing to cash flow now. Both ourselves as well as our customers. And so what has changed is that we used to be able to get a fixed charter depending on -- that just depended on our availability and not had an oil price tariff. And now our customers would rather have a lower minimum and give us a share of the upside. Whether that will continue for a long time, I can't say.

But in the current low oil price environment, people are willing to share some of the upside which they weren't willing to do in a high oil price environment. And so in the end that give us favorability. And it also gives us optionality because the options that Centrica had were one way, meaning they had them. But we also have the right to go market the unit for longer term employment by giving notice. So I think that's a reflection of the low oil price environment.

Gregory Lewis: Okay. And just as we try to model that, is it something where -- you mentioned cash flow where, you know, you're getting paid a portion of that to offset your operating expenses where your profits are going to be more tied to the commodity, or is it the profits are going to be a function of -- is there a built-in profit margin that you're getting, I guess, prior to what the commodity does?

Vince Lok: Hi, Greg. This is Vince here. If you look at slide 11 where we have given some guidance on Q3, we have guided that the Hummingbird revenue in Q3 will be about $8 million lower. I should note that the $8 million includes $2 million of bonuses we received in the second quarter. So the real reduction is really more around $6 million per quarter.

I should add though that that is based on the minimum rate under the new contract that started in July. We have not included or assumed any oil price tariff in this guidance figure. The tariff, I can't really give any specific details on the tariff but it is based on just the oil price as opposed to production, so we are not taking production risks. It's just based on oil price and it clicks in above $45 Brent.

Gregory Lewis: Okay. Great. Hey, guys. Thanks for the time. Have a great rest of the summer.

Peter Evensen: You too.

Vince Lok: Thank you.

Operator: Our next question comes from the line of Fotis Giannakoulis at Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, hi, gentlemen and thank you. Vince, I just want to follow up on Greg's question. You have been very good in giving guidance for the subsequent quarter. Can you tell us what was the total performance bonus for all the three FPSOs, and if you can give us more of an annual guidance based on this $45 oil environment which is pretty much the floor? I see that you made something like north of $70 million for the three FPSOs, the last four quarters. What shall we expect if oil stays at $45 for the subsequent four quarters?

Vince Lok: Hi, Fotis. Yes, as you can see in the appendix D of the earnings release, the FPSO segment at the parent generated roughly $7.5 million of EBITDA or CFVO. That does

include the $2 million from the Hummingbird that I mentioned. Going forward, if you look at Q3, the main change would be the $8 million reduction I mentioned on slide 11 for the Hummingbird.

We are expecting slightly lower OpEx as well for the FPSO segment. So for Q3, we are expecting, you know, a slight positive, roughly $1 million CFVO for Q3. However, as you probably know the Foinaven receives an extra bonus in the fourth quarter each year. And so the fourth quarter EBITDA would be expected to be significantly higher.

Last year's fourth quarter, we received roughly about $12 million extra from the Foinaven and I would expect a similar amount this year based on production and oil prices. So the fourth quarter EBITDA for the FPSO segment would be roughly about $13 million to $14 million.

Fotis Giannakoulis: Thank you very much, Vince. That's very helpful. I also want to ask about the financing of Teekay Offshore. I understand that part of the financing agreement was the requirement of Teekay Offshore to issue equity for the dividend that paid to Teekay Parent. Can you explain to us why that was the case and is there any thought of potentially Teekay Offshore cannot raise this equity to reduce the dividend at the pace of the parent?

Vince Lok: Just to clarify, the Teekay Offshore distribution to the parent is paid in the form of TOO common units. So it's a payment in kind or pick. And that's roughly about $4.5 million a quarter. The remaining Teekay Offshore distributions to third party investors, that's non-Teekay parent, that's the portion that Teekay Offshore is required to issue in

the form of new equity probably for the next couple of years until the two Norwegian bonds and TOO have been repaid. And they have a period of time to do that after each dividend.

So just to clarify, the Teekay parent portion is pick whereas the third part TOO distribution is where the issuance of equity is required. And the main reason for that was really from the Teekay Offshore banks and bondholders who wanted to minimize the amount of dividend leakage out of TOO during the period that the Teekay Offshore bonds have been extended out.

(Crosstalk)

Peter Evensen: And we anticipate that we will do that through at the money issuance under our existing programs rather than through a follow-on equity offering.

Vince Lok: Yes. That's a fairly minimal amount. The non-Teekay parent TOO dividend is around, I think, about $30 million to $40 million a year. So we can issue that through our (ATN) program in TOO.

Fotis Giannakoulis: Okay. Thank you. That's very helpful. And I saw at the Teekay Tankers levels you sold one of the non-core MR tankers. Are there any other assets within the group that you consider non-core business, or any assets that you might think that they could be disposed at this point since you pay so much focus on improving the liquidity? And particularly I'm asking about the parent assets, if there is any price or any

negotiations going through for a potential sale of these assets to third-party rather than drop downs as you have done so far.

Peter Evensen: Sure. Well, obviously with over 200 different units across all of our four companies, we are always weighing up sale and purchase decisions on our fleet. So I won't comment on any single assets that we may have. I will say on our FPSOs upstairs, we still would ultimately like them to be dropped down to Teekay Offshore when the financing environment is better because we like those asses long-term.

We think that in today's market, they aren't selling for their full value or we wouldn't receive full value for them and that as the energy market recovers and as we get longer-term contracts, will enhance that valuation. And that's pretty much how we see both our stock market valuations as well as the assets and if you followed what we were saying at tanker investments, where Will Hung the CEO was saying on his earnings call yesterday.

He was saying that the present environment isn't good for selling assets. I mean there is more sellers than there is buyers and therefore it's better to hold on and just bank the cash flow that you have.

Our sale of the Shoshone was something that we saw as really non-core and when you look at Teekay Tankers, they are positioning themselves to be a crude play not a product play. So they would rather dedicate that exposure, if you will, towards more crude.

Operator: Our next question comes from the line of Michael Webber at Wells Fargo. Please go ahead.

Michael Webber: Hey, good morning, guys. How are you?

Peter Evensen: Good. Thanks.

Michael Webber: Peter, my first question is around Centrica. As you mentioned in your prepared remarks, you have extended the rollover on that to September '17. Just curious, when you think about that asset specifically, is it too early to be thinking about alternative employment beyond that point. And I guess specifically, you know, if you do need to move that, can you flip that in time as you can hit the summer window in 2018. And, I guess, when you think about capital budgeting for '17 and '18 and beyond, what are you guys incorporating for that asset beyond the extension from Centrica?

Peter Evensen: Well, I think the good news is that when you first look at the Chestnut field, that reservoir has exceeded the engineers' expectations, i.e. its production has kept up longer. So really it's a good news from a physical side of the reservoir. Obviously the oil prices would oil prices. But we reached an accommodation where we think it's better to keep it operating and retain some upside through the oil price risk.

And so as I said on Greg Lewis's call, that's a reflection of the market that we have right now. So all of the, as it relates to the re-employment, we wanted the ability not to have an endless string of options so that we can start marketing the unit. And I think there are reservoirs that could fit what the Hummingbird has, which, it's more of a simple FPSO

but thereby it has a lower breakeven. And so for smaller oilfields, it would fit in pretty well. So now we just need the animal spirit of the customers to come along.

Michael Webber: Great. And I guess, practically speaking, how far in advance could you realistically be able to have conversations about an asset like that rolling off in '17? Is it a scenario where you kind of exhaust every avenue with Centrica before you would think about employing it somewhere else? Or when can you really get a good feel for that, how far in advance?

Peter Evensen: It all depends on the field. Some fields are simple to setup. If you are only having one or two wells where they are already drilled, that's much simpler. It all depends on the field and the opportunity in the discussions.

Michael Webber: And I think you mentioned this on prior calls, but, you know, the production data out of Chestnut has been flat to slightly up. I think there is like a three-month lag on that data. But do you have an idea where the breakeven level is on that field? I think you have mentioned that before ((inaudible)).

Peter Evensen: I don't have with me right now.

Michael Webber: Okay. Just a transition to the carriers. You mentioned on the TGP call that one of the chartering carriers at the parent is now trading, I believe it's the Polar, I think the Arctic is still laid up but I think has slipped. Do you have an idea, when you think about capital budgeting, you know, for the next couple of years, that's obviously laying

those up with a pretty big drain on cash. So those are actually trading and kind of bring a pretty positive.

One, do you have idea of what it would take to bring the Arctic back out and trade that and then when you guys are looking at kind of cash burn for the next couple of years, is it realistic to think that, you know, we could be in a scenario where, you know, they are not burning cash in '17, kind of the backend of that chartering period.

Peter Evensen: Yes. Actually, as I said in my prepared remarks, we are bidding it on multi-year contracts, beginning the first quarter of '17. It's a shallow draft both of those carriers are shallow draft LNG carriers. We had them in Argentina for a long time going up a river and we have some terminals in China that are shallow draft ports that you can't bring a big LNG carrier in. And that's where we can start to see that in the low LNG environment, they are trying to bring these terminals back and import more LNG. So we are the direct beneficiary of that.

Michael Webber: Fair enough. Just to stay on LNG for a second. You know, one of the common thoughts in the market that, you know, we will really start to see a turn when some of the spot assets start getting employed on long-term contracts, but I guess it would stand to reason that even before that, if we were really looking at a short-fall in '18 or '19 that you would start seeing, you know, contracted LNG carriers start having conversations about extensions and MNO.

You guys aren't in a great position to answer this because you could do ((inaudible)) I can you still have pretty wide margin, the longest average tenure on your contracts. So

it's probably more applicable for some of your competitors. But do you think we are in a scenario now where we can start to see some of those steamships, or tri-fuels or any assets that might be midway through multiyear contracts, starting to have conversations around extensions, or is it a bit too early?

Peter Evensen: No, I think it's too early for that. Right now people are trying to stay short and as you know LNG trading patterns are going on. But I just wanted to finish up on the Polar and Arctic as it relates to Teekay Corporation. So those are vessels that we have chartered in to the first half of 2018. So the cash loss that we have if they are laid up, which is substantial to Teekay Corp, and that's hurting us on the near-term free cash flow. That will go away when that in-charter ends in early '18.

And so that's the good news. But all that does is transfer it to TGP. So that's why we don't care who has the responsibility. Our chartering guys are out trying to fix that. And we have had really good luck with those ships. They are niche trades and so you heard me say in the prepared remarks, we have real conversations going on about multiuse of that. So people want those ships, they come to us.

Michael Webber: Fair enough. Just one or two more and I will turn it over. And this is one's for Vince, just to clarify. You know, you are providing a bit more of cash support to TOO here, taking back in and, you know, raising the rate on the vendor financing of the bridge for the Knarr, which net-net makes a fair amount of sense. But in terms of when we could see cash distributions from TOO actually getting back to Teekay, the right way to think about that is around that NOC bond or would it be tied to the refinancing of that vendor facility.

Vince Lok: In terms of -- well, I think in terms of potential upside, in terms of the free cash flow to the parent, it's both Teekay Offshore and TGP. And for Teekay Offshore, you are right, you know, it is a significant event to both, you know, for Teekay Offshore to refinance its NOC bonds, I think primarily as well as to get around, to resolve some of the charter rollover in 2018. And as Peter mentioned on the TGP call, one of the key events in TGP is to finance our existing newbuilding program in TGP and we are making significant progress on those efforts. So very much focused on restoring the distributions.

Michael Webber: Right. Okay. That's helpful. Just one more from me and I will turn it over. Peter, this is just kind of higher level. I don't think I have heard you mention this yet but just, when you are having conversations in and around the North Sea on extending those contracts, you know, what impact, if any, the Brexit had on your thought process in those conversations.

Peter Evensen: Short answer is, it hasn't. Obviously, most of our fields are located in Scotland waters and nobody understands that. But one thing, I would say is, that the pound going down has lowered our operating costs. So when you look at a field's breakeven relative to the US dollar, Brexit is actually helping us on a cash cost. And that's actually what people care about more than anything else.

Michael Webber: Fair enough. All right, guys. Thanks for the time. I'll turn it over.

Peter Evensen: Thank you.

Operator: There are no further questions at this time. Mr. Evensen, please proceed.

Peter Evensen: All right. Thank you all for listening. Have a great weekend and rest of the summer. We look forward to making more progress and reporting it back to you. Thank you.

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

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