TEEKAY OFFSHORE PARTNERS LP

Moderator: Emily Yee
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11:00 am CT

Operator: Welcome to Teekay Offshore Partner'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 Offshore Partners' Chief Executive Officer. Please go ahead, sir.

Ryan Hamilton: Before Mr. Evensen begins, I would like to direct all participants to our website 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 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 contained in the second quarter 2016 earnings release and earnings presentation available on our website.

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 2016 investor conference call. I'm joined today by Kenneth Hvid and David Wong, the CEO and CFO of Teekay Offshore Group Limited; as well as Vince Lok, Teekay Corporation's CFO.

During our call today, I'll be walking through the earnings presentation which can be found on our website. Starting on slide three of the presentation, I'll briefly review some of Teekay Offshore's recent highlights.

The Partnership generated distributable cash flow or DCF of $46 million in the second quarter resulting in distributable cash flow per limited partner unit of 42 cents.

Cash flow from vessel operations, or CFVO, generated by the partnership in the second quarter was a $144 million, up 8% from the same period of the prior year. For the second quarter we declared a cash distribution of 11 cents per unit, consistent with the prior quarter resulting in a strong distribution coverage for the quarter.

I'm pleased to report that in June 2016 the Partnership completed $600 million of financing and other initiatives announced during our previous earnings call in May. As I'll detail later in this presentation, Teekay Offshore has now secured debt financing for all of its existing growth projects, and with these financing initiatives we've also addressed all of our near and medium term debt maturities.

As at June 30, 2016 the partnership had total liquidity of $421 million. As part of the financing initiatives completed in June, our subsidiary, Logitel cancelled the shipyard contracts for the two remaining units for maintenance and safety or UMS, which had been under construction in China. On our related note, I'm pleased to report that our existing UMS, the Arendal Spirit when back on hire with Petrobras in early July following the replacement of its gangway which suffered extensive damage in late April.

Turning to Slide 4, our on-the-water FPSO and Shuttle Fleets continue to generate stable and growing cash flows supported by a diversified portfolio of long-term contracts with high quality counterparties. And with the exception of the Arendal Spirit, we had high uptime in utilization in our operations during the second quarter.

The macro energy environment remains challenging, but year-on-year we've effectively managed to offset reductions in cash flows from some assets that were redeployed or retired with new growth projects, which highlight the benefit of our fixed rate contract portfolio.

Over the next several quarters we expect the partnership CFVO to continue to grow as current projects deliver. CFVO for our FPSO fleet in the second quarter of 2016 was 50% higher than what we generated in the second quarter of 2015, mainly due to the acquisition of the Petrojarl Knarr FPSO in early July of 2015. The Knarr FPSO is currently operating on the Knarr oil and gas field in the North Sea under a 10-year contract with Shell, formally the BG Group.

This has more than offset the reduced cash flow resulting from the decommissioning of the Varg FPSO during the second quarter which ceased oil production in July after almost 18 years on the Varg oilfield.

Since February 1 of 2016, the Varg FPSO has been earning only the OPEX portion of its charter hire as part of the curtailment of operations. And at the end of July 2016, decommissioning of the Varg FPSO was complete and the unit is now in lay up at the Rosenberg Yard in Stavanger, Norway, awaiting its next project.

We've continue to receive inbound enquiry from customers expressing interest in utilizing existing on-the-water FPSOs, as it is a more cost effective way to develop new offshore oil fields compared to newbuildings due to the lower capital cost of existing FPSOs, which reduces the field's breakeven per barrel day cost of production to a level at which field development can occur in today's lower oil price environment.

We're having field development discussions with several oil companies. These discussions gives us confidence we'll be able to successfully redeploy the Varg FPSO on a new multiyear contract in the North Sea.

Looking at our Shuttle Tanker business, cash flows have remained relatively steady in the second quarter of 2016 compared to the same quarter of 2015, despite the sale or redeployment of several older vessels in our fleet and the expiration of the (Hydran) contract of affreightment in 2015.

Reduced cash flows from certain contracts were generally offset by the commencement of the East Coast Canada Shutter Tanker contracts; other new contracts contract of affreightment and increased charter rates under certain other contracts.

The Shuttle Tanker market remains tight with strong underlying fundamentals and we're encouraged by the level of enquiry we've been receiving on our contracts contract of affreightment service in the North Sea. Driven by combination of more lifting points and new fields coming on-stream faster than fields are rolling off, we expect global Shuttle Tanker utilization to continue to be high.

CFVO from our other segments, which include our FSO, towage, UMS, and conventional tanker businesses were down in the second quarter largely due to the Arendal UMS being off hire for 71 days; i.e., most of the second quarter following damage to its gangway in late April, which I'll - I detailed at the opening of this call and on our earnings call in May.

In addition, during the fourth quarter of 2015, we sold two of our conventional tankers and also completed the sale lease back of our two remaining conventional tankers in the first quarter of 2016, which resulted in a reduction in the cash flows generated by this segment. Charter rates and utilization in our towage segment were lower in the second quarter of 2016, compared to the same quarter of 2015.

However, moves in the drilling rigs space continue to drive new towage opportunities and enquiry. And recently our towage business was awarded a long distance new building FPSO towage contract requiring two BP2s towage vessels which will commence in the second half of 2016.

Turning to Slide 5, we've provided an overview of the financing and other initiatives completed by the partnership at the end of June. This includes $400 million of new bank financings and refinancings, extending the maturities on two of our Norwegian bond series to the end of 2018 with some amortization payments being made in 2016, 2017 and 2018. $200 million of new preferred and common equity issuances and the cancellation by our subsidiary, Logitel of approximately $400 million of future CAPEX payments related to the two UMS units under construction and the sale and lease back of our remaining conventional tanker assets.

Our finance team assisted by multiple financial institutions worked hard over the last six months and 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 these depressed price levels, we believe it was the right thing to do because we've reduced the Partnership's financial risk at the time of great macro uncertainty in the energy space and in particular the offshore space.

These initiatives, together with expected operating cash flow and previously arranged debt facilities are expected to cover all of our medium term liquidity requirements and fully finance all of Teekay Offshore's $1.6 billion of committed growth projects. And the completion of our gross projects will safeguard our cash flow and future for the next several years as well as position us to be part of the energy rebound which is in the interest of all of our stakeholders, investors, customers, suppliers and employees.

Turning to Slide 6, the slide we showed you last quarter but I think it's worth revisiting. TOO's balance sheet is projected to de-lever over the next three years as a result of the amortization of its secured and unsecured debt, which will primarily be serviced with cash flow from operations.

Driven by various growth projects which deliver between mid-2016 and 2017, TOO's cash flow from vessel operations is expected to continue to grow over this period, and as a result we expect our net-debt-to-CFVO to drop by almost two-fold turns from 4.9 in Q2 2016 to approximately 3.1 in Q4 2018.

Based on the combination of lower financial leverage, and what we hope will be an improved macro environment for energy, TOO will be in a much better position in 2017 and 2018 to access the capital markets to refinance its bonds.

Turning to Slide 7, we provided an updated summary of our three-year pipeline of growth projects, with committed financing now secured. Starting at the top, the delivery dates of our four state-of-the-art, long-distance towing and offshore installation vessels have been pushed out slightly and are now scheduled to deliver in the second half of 2016 and the first quarter of 2017.

Under our contract with the shipyard we will be receiving cash payments to compensate us for loss revenue resulting from the delayed delivery. Once delivered, these vessels will be immediately available for towage charters, and we're already starting to build a book of contracts for these high spec vessels.

In the next row, the timing of the Petrojarl I FPSO unit has also shifted, due to a larger scope of work required relating to field specific requirements and the age of the unit. The unit is currently scheduled to arrive at the field in the first quarter of 2017, rather than the fourth quarter of 2016 based on the scope of work remaining. Upon delivery, the unit will operate under a five-year charter contract with QGEP as the operator of on the Atlanta field in the Santos Basin Offshore Brazil.

Next, the Gina Krog FSO conversion project is on schedule to be completed in the first half of 2017, at which time it will commence its three-year plus extension option contract with Statoil on the Gina Krog oil and gas field in the North Sea. The converted FSO unit is built around the hull of one of TOO’s former shuttle tankers, the Randgrid with conversion work taking place in Singapore.

The Libra FPSO conversion project, which is also using one of Teekay Offshore’s former shuttle tankers is currently underway at the Jurong Shipyard in Singapore. This newly converted FPSO unit, which is owned through the partnership’s 50-50 joint venture with Odebrecht Oil & Gas, or OOG will operate on the large Libra pre-salt field in the Santos Offshore Basin, with estimated reserves of 8 billion to 12 billion barrels, and currently considered to be one of the largest oil fields offshore Brazil.

As of June 30, this $1 billion conversion project is just over 70% complete and delivery from the yard is scheduled for December of 2016, with first oil expected in early 2017. The project remains on budget and is fully financed through an $800 million long-term debt facility. Finally, construction has now commenced on our East Coast Canada

Shuttle tanker new buildings which was scheduled to deliver between late 2017 and early 2018.

Following delivery these vessels will replace existing shuttle tankers we have in charter and one of our older shuttle tankers which are currently servicing 15 year not including extension options, contracts with a consortium of nine oil companies producing in the East Coast Canada offshore basin. TOO is currently the solo supplier of shuttle tanker services for this region.

Construction of these vessels is in the initial stages with steel cutting for the first vessel performed in June this year. At the end of June 2016 we completed a new $250 million facility to finance the construction of these vessels. In combination the projects listed on this slide are expected to add approximately $200 million of new CFPO to TOO's annual run rate.

Wrapping up on Slide 8. With the delivery of our existing growth projects and realization of ongoing G&A and operating cost saving initiatives, we expect 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 partnership's 2015 run rate CFVO. And with the completion of our recent financing initiatives, Teekay Offshore now has the financial runway to complete its existing growth projects and continue to further strengthen its balance sheet.

Thank you all for listening. And operator I'm now available to take questions.

Operator: Thank you so much. Ladies and gentlemen, if you'd like to ask a question, please signal by pressing star 1 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. Again, press star 1 to ask a question.

We'll now take the first question from the line of Michael Webber of Wells Fargo. Please go ahead.

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

Peter Evensen: We're doing well thanks.

Michael Webber: Just a handful of questions, I wanted to start with the Varg, I know you commented earlier it's kind of breakeven contract sitting in Norway. You've recently put some leverage on that and just curious is to how that sequencing worked and whether we should view the incremental debt that you guys are able to put on the Varg as kind of an indictment of the residual value that one does see in asset.

Or were there, you know, kind of changes to the employment profile kind of following securing that debt. I know it wasn't a ton of leverage, I want to say it's about 30% but just curious about how that worked in general?

Peter Evensen: Sure, so the Varg FPSO had been financed by banks and it was more of a cash flow based loan given that it was on - to Talisman in the - on the Varg oilfield. And we went to our existing lenders as part of the financing initiatives and said we would like to extend the loan i.e. refinance at a lower amount. And so it’s more of an asset based loan at a relatively low loan to value.

And they were willing to give us $75 million which we put together on an 18-month facility. Because they know that there is an inherent value in the Varg FPSO that’s far greater than $75 million. And then when we get a new contract for the Varg FPSO we plan to refinance that as well as any upgrades that are required for the existing contract. But then we’ll return to a cash flow based loan against the long-term contract.

Michael Webber: Got you. That’s helpful. And just to stick with the FPSOs, you know, earlier in the year with the Libra there was some - I’m trying to get the right adjective but there was an option that was put in place with your JV partner that ended up not getting exercised, segment of Odebrecht defaulted on some bonds. I’m just curious as to where that process or situation stands now aside from the fact that the they still need the asset.

Peter Evensen: Yes, well it’s no secret that our joint venture partner, OOG has had some financial distress. They are in negotiations with some bondholders on one of their facilities. And so as part of that they wanted the ability to sell half of their 50% venture to us with the option to buy it back. We gave them that option as part of what was going on. But in the end they didn’t utilize that option and that option just expired. So right now they have paid in all of their equity on the project. We paid in all of our equity and so now there is - it’s just the debt financing.

And so that was part of our work going on. So the banks that are financing the project are supportive but they are rightly concerned with the financial strength of the joint venture partners, including Teekay Offshore.

And that's why our completion of our financing initiatives was very important to reassure the Libra banks who are providing $800 million against the long term contract with Petrobras that the project would be completed. But now all the equity has been paid in. But we still rely upon Odebrecht, who is a good joint venture partner to help us with the construction, and their personnel together with Teekay personnel are doing a great job of building that unit.

(Crosstalk)

Kenneth Hvid: I mean the project is progressing well. We're more than 70% complete on this. It's on time on budget. And I think that's where everybody, all stakeholders are focused now the banks as well as the customer obviously was keen to get the unit on the field.

Michael Webber: Right so the equities and the risk of an incremental capital cost seem to be off the table. So from this point it is more or less kind of I guess that aspect of it is more or less derisked.

Peter Evensen: I never say that as it relates to offshore projects. But as you hear from what Kenneth is saying who's works with it day-to-day that we're relatively confident in that project.

Michael Webber: Okay excellent. Just one more from me and I'll turn it over and Peter this is just kind of a higher level question. But you had a pretty successful quarter just in terms of capital fund raising in general, kind of taking over from the door. And just curious how you think about conceptually how you think about cost-to-capital and specifically in the equity. I mean as you all know there is a big portion of the marine space it looks as kind of the barometer as to whether or not it's accretive to raise equity or not, you know, (keyhole) historically traded on a yield basis and at pretty attractive, more attractive cost-to-capital.

You know, at what point do you transition away or did you ever really look at and transition away from looking at, you know, is this equity deal accretive on an NAV basis while we're kind of scuttling along the trough year to looking at it on kind of a pro forma yield basis saying okay, once we get, you know, get through these deliveries and when you get through these bond refi's we're going to be raising distribution again and we want to make sure this is accretive on that basis. So kind of how do you transition back from kind of all hands on deck to kind of managing it on a go forward basis?

Peter Evensen: Okay so that's a big question, but let me answer it by saying I don't think things have realistically changed. We reduced the distributions in December because we saw that, that using that money, that we weren't paying out to our distributions which was a very hard decision.

In the end we will end up with higher DCF, or Distributable Cash Flow, per share by - because that will be our cheapest form of capital. And we thought that the dislocation in the MLP space caused by the low oil prices was going to last for a considerable time. That looks to be what has happened now.

Obviously none of us know exactly where oil prices are going to be but I think we have said that, that will be our cheapest form of capital and we have to change our financing strategy for a while. Our strategy as we told our investors, when we raised the $200 million this last quarter is to firm up our balance sheet, de-lever and restore and increase our distribution. So I believe that Teekay Offshore will begin to trade on its yield basis going forward. Then we can start to ask about what the yield will be of the MLPs going forward and that will be dependent on the growth rate.

But as it stands right now, we're not looking at growth because we are selling at a distressed price below what we consider our inherent value and that's an inherent value based on NAV as well as a higher value based on our ability to payout debt.

What we are changing, and I think going forward is that rather than run at a higher level of debt, which was, you know, 4.5 to 5 times debt-to-EBITDA which would have promoted a higher equity payout, we have committed to run at a much lower distribution or debt level which is 3 to 3.5 times. It's not to mean that projects are not as accretive going forward, but what it also means is that the distributions will be more sustainable going forward.

So yes, we're going to have to take down the financial risk but what we've seen in the energy market which is that it's a repeat of 1986, oil prices went down 70%. But what I can see is that customers are going to need our units, and Teekay's operations, because we can operate FPSOs and Shuttle Tankers much cheaper than our customers can. And as they come out of it they're much more focused on return on invested capital. So our ability to own and operate infrastructure assets, I think puts us in a good position.

So I'll go one step further and say a lot of people have asked me, gosh you got caught with a lot of growth. But the reality is if you look three or four years going forward, Teekay Offshore will be in a better position by having these multiple year contracts that we're putting in place the Libra, the Gina Krog. And that puts us in a much better position with expanding CFVO rather than declining CFVO because we didn't have a lot of growth.

Michael Webber: Right, okay. And just to follow up on that and then I'll turn it over, if I just get a bit more specifics and I think about, you know, of the parent taking units back as opposed to cash and resetting the rate on the vendor financing on the Knarr, if I think about that rate now at 10% kind of the basis for, you know, that financing, do you think about, you know, eventually refi-ing or paying down that vendor financing?

I guess how do you think about - do you kind of isolate that when you think about where your yielding will be or where you need to be relatively to NAV in terms of refi-ing that or do you kind of lump it in with the rest of your, you know, your capital stack and decide okay, we're just going to - we're managing towards kind of resumption of normalcy?

Peter Evensen: Okay so for the benefit of everyone Teekay Corporation has extended $200 million of vendor financing to Teekay Offshore which was part of the dropdowns. And as part of the financing initiatives we termed that out and that has a 10% interest rate fee.

So yes I think as our debt leverage goes down then Teekay Corporation would see that when we refinance our existing bonds, that taking out that seller credit financing would definitely be something that Teekay Offshore wants to do, and that would bring $200 million back up to Teekay Corporation.

For Teekay Offshore we expect when we refinance to get a much cheaper interest rate than the 10% that we're paying right now to Teekay Corporation. But by the way Teekay Corporation is helping us by taking some of that interest rate in units.

Michael Webber: Okay, great. I will stop there and I turn it over. But I appreciate the color Peter thank you.

Peter Evensen: Thank you.

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

Fotis Giannakoulis: Yes, hi Peter and thank you. Peter, I would like to ask you if you can give us a little bit more color on the tenders that you are pursuing right now for the Varg. If I remember well you have mentioned about four of five of them in Norway and North Sea. Can you give us some idea of the timing of this decision?

Kenneth Hvid: Hi Fotis, it's Kenneth here. As we've covered on previous calls here we have received a lot of inbound inquiry on the Varg unit. And the main reason for that is of course that we are seeing a number of the oil companies sitting on medium sized fields in the North Sea that are looking for ways to develop those at lower oil breakeven costs.

And doing that requires that they're actually looking at existing assets and Varg is of course such a unit, it being built to the (Northrop) standard. And therefore really the only unit that's currently coming free that is kind of grandfathered in under the Norwegian regulations.

So as we've also said in on previous calls, we I think earlier in the year we were looking at five opportunities broadly. And as it happens when we look opportunities you obviously go through that sales funnel and we are reducing it down. So we are maturing now and are active on three opportunities and that dialog is continuing with each of those customers, where they're of course expanding resources and so are we, on maturing it.

And we expect to continue that parallel track for another couple of months and we'll update you on future calls. But that's a very active dialog. We won't detail the specific fields that we're working through at the moment. But we're encouraged again by the fact that we have three customers here that are very active in the dialog.

(Crosstalk)

Kenneth Hvid: And just to touch on the start of, which I think you asked as well, realistically we are looking at for each of the three opportunities will be with a start between end of '18 to end of 2020, I would say.

(Crosstalk)

Fotis Giannakoulis: That's very helpful. And I understand that each opportunity is very unique in nature and cash flows and structure, and but certain fields they require different investment and upgrade and customization of the FPSO. These opportunities that you're looking at what approximately is the CAPEX that you will need to put on the vessel in order to upgrade it? And how much are you expecting to finance it? What I'm trying to understand is what is the equity requirement, if any, for any of these projects?

Kenneth Hvid: Yes, as you rightly put, I mean there is of course a range and that's what we're evaluating in parallel here. So it's a pretty complicated metric obviously in terms of the field, the counterparty, the contract length and the upgrade scope. The range I would say is probably in the 100 to 300 400 range in terms of upgrade.

I don't think we would expect to put in more and more acreages but we are of course pursuing the financing packages in parallel. So it's all part of the evaluation in terms of which one comes out as the more attractive one of those alternatives.

Fotis Giannakoulis: Thank you and I want to ask also about the Petrojarl I FPSO and the Gina Krog FSO. Can you elaborate a little bit more on the results, why the delivery of Petrojarl is delayed and also what is reason that the cost overrun moved from $96 million in last quarter to $126 million? It seems that this project since it was firstly announced, it has gone up from around $230 million to close to $300 million. Is there any proportional adjustments on the contract revenue that you're going to be earning?

Kenneth Hvid: Yes, some of the - I'll say the delay in the anticipated delivery and what we're looking at right now has to do with variation orders and some of it has to do with a more expanded scope then what we originally estimated on this older unit. We're working through it and I'll say in a very constructive way with both the shipyard as well as the customer, on getting the right timing on it and there'll be some adjustments to the contract. But that's all discussions that are happening in parallel right now.

Fotis Giannakoulis: Is there a way that you can give us a range on the anticipated EBITDA for this project?

Peter Evensen: No, we don't have that at this time.

Fotis Giannakoulis: Okay, thank you. And one last question about the cancellation of the UMS. Obviously this is a very good news for the liquidity of the company. You have taken some loss provision from canceling these two UMS contracts. Have you paid any amount of this provision during the second quarter or what is the cash flow if any that you would have to pay for this cancellation?

Ryan Hamilton: No amounts have been paid as a result of this cancellation. And as you know that these contracts are in a single propensity that have no recourse to the partnership and so we don't see any cash flow going out.

Fotis Giannakoulis: Okay, so it's not in your balance sheet, this amount?

Ryan Hamilton: We do have a provision in our balance sheet for damages as required under accounting rules, what a cancellation occurs, you do need to record damages. But that's purely right now accounting and we don't see anything happening in particularly in the near future, absolutely. And because it's non-recourse it's held within that single purpose entity or it's...

(Crosstalk)

Fotis Giannakoulis: That's all from me. Yes, sure.

Operator: The next question comes from the line of Spiro Dounis of UBS Securities. Please go ahead.

Spiro Dounis: Hey, good afternoon everyone. Thanks again for taking the questions. Just wanted to, you know, and I realize it's way - we had questions on it already, but the 2018 FPSOs I guess are coming up for charter, you know, hard to predict but I guess when do discussions start to talk about re-upping on the option, or I guess may be one of those things would have to, start looking at new fields?

Kenneth Hvid: I mean as you've seen on all the companies that are declaring options, where options are being declared, it really is often close to, the maturity of the option declaration date. And that of course has to do with the fact that the it's an option that the charterer has. It's a, the units are on the existing fields and most of the time you basically assess the field prospects as you come closer to declaration date.

On some fields, you are of course looking at tie-ins and expansions and those are typically the fields where you would start the discussions earlier and that's some of those that we could see us having earlier. As a reminder, I mean the three you're talking about are of course Voyager, which is on an existing field. There we would expect the productions to continue beyond 2018. But again there is, it will be early to start those discussions now.

Piranema is small, it's in the same type of position producing on an existing field where there are some opportunities to do further development and drilling on, in that region which of course is totally up to the customer what they will end up doing. But they've already had some cost and the unit is producing.

And on the (Astras), which we've covered in previous calls is little bit of a different unit which is an early well test unit, which is producing and have been producing on different heavy oil fields very successfully during the term of the contract. And that of course is more of a discussion about when do we start discussing well that is the still Petrobras's strategy to have early well test units that can and go in and explore these new fields. And that has not started yet.

Spiro Dounis: Okay, that makes sense, and I don't know if this ever make sense but would it ever be in your interest there, basically approach them earlier, renegotiate may be a lower rate which they might be attracted to, especially in this oil price environment with the intent, or I guess basically, on the other hand of that them agreeing to may be another five-year extension earlier than they would had to, or is that not really, or we're just waiting?

Peter Evensen: Yes, we are, as we've said with the Voyager for example; we are open to what we call blend and extend. But we usually try to get something back, i.e., link it up to the oil price. So it isn't that we're giving away the cash flow. But yes, that's something that we're considering as it results in a lower breakeven for the oil company. But we try to find a way to recover that if the oil price ends up being higher than where it is now.

Spiro Dounis: Got it. Okay. And then last quick one from me, back to the Varg. Just for modeling purposes, how should we think about the lay-up cost there, is that already built into the CFVO guidance? Or can you just provide us may be some sort of daily rate as to what's that costing?

Peter Evensen: That's built into the guidance.

Spiro Dounis: It is, okay. Perfect. Thank you.

Peter Evensen: Thank you.

Operator: The next question comes from the line of Wayne Cooperman of Cobalt Capital. Please go ahead.

Wayne Cooperman: Hey, guys. After all these financings and, you know, you've increased the preferred and you've increased the shares, could you talk a little bit about what, you know, the outlook for the potential dividend increases is? What, you know, the bogie is on the cash flow from operations to, you know, get to a higher level of dividends, now that you've got more shares, you know, and more preferred and other instruments?

Peter Evensen: Yes, hi Wayne. So we have, I think the biggest bogie right now is to complete the refinancings that we talked about, that are coming due in 2018, 2019. And to the extent that we can bring down our leverage and refinance those at a lower interest rate and i.e., term out those refinancings, that's really the prerequisite for restarting the distributions.

But as you see from the DCF we have a big multiple coverage ratio, and that gives you an indication that it's in everyone's interest to restart the distributions, both our sponsors, GK Corporation as well as Teekay Offshore. And as I said in the earlier Q&A, Teekay Corporation being the GP partner took it hard, but they know that by having reduced the distributions temporarily we will ultimately get a higher DCF per share.

Wayne Cooperman: Is there are I mean are there a number for cash or a coverage rate, you know, is there something that we should look at or you start tipping into the point where you will raise distribution?

Peter Evensen: We can send it to you separately. We detailed it out with - in our latest investor deck which I think is on the website. But after the call I'll have somebody point you to that page where that's covered.

Wayne Cooperman: I'll find it. Thanks. All right, thanks.

Peter Evensen: Thank you.

Operator: The next question comes from the line of Nick Raca of Citibank. Please go ahead.

Nick Raca: Thanks guys. I just had a quick few housekeeping items. So the Piranema, I noticed that you guys addressed the reserve fees, there's a reserve in there relating, I'm assuming that's relating to the agency's fees. Could you give us a little bit more color around that issue?

Kenneth Hvid: Yes, it's previously - we had an accrual for an agency fee in our accounts, which was - which we disputed with our agent and that was then reversed. And we have now decided to basically reinstate the liability this quarter given a claim from Petrobras that we received possibly returning that fee to Petrobras instead.

I think what's important to look at is that overall the original economics of the Piranema charter is not really impacted. It was - we had a 2% that was supposed to pay to an agent. We think - we took it back to ours and then now we are potentially looking at paying that back to Petrobras, but that's a discussion point.

Nick Raca: Okay. And then I guess the second question I have is really relating to the towage, the ELP newbuilds. Typically, how long are those contracts. That's the first part of your question. Second part is where you seeing the most movement in rigs right now or FPSO for that matter?

Kenneth Hvid: They are really happening worldwide. I mean we see a bunch of rig moves that are going to layup or even to scrapping. So they're coming off fields all over the world, the Gulf of Mexico, Brazil, West Africa and we have rig move ups we're looking to do right now in the Far East that going actually into another employment into Australia. As I would say there are rig moves that are happening all over the world.

The contracts that we are typically looking at obviously depends on the distance as you will appreciate. The FPSO contract which is the larger tows which are a little bit more of our focus area, where we typically require at least two (chocks) again go from the shipyards in Asia in to either Europe and West Africa or Brazil typically.

And those are tows that are ranging from 60 to 90 days and then typically there is some installation contracts on top of that. And they typically will go on a lump sum type of agreement. So they are attractive in terms of building our book whereas the drilling rig moves which there are many of at the movement come up with shorter notice and are a little bit more spot type activity. But filling our books at the moment.

Nick Raca: Fair enough. That's all I had guys. Thank you.

Peter Evensen: Thank you.

Operator: The next question is come from the line of Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hey guys. Just had a quick follow ups. Kenneth I think in one of your earlier answers to around a potential, I guess the different timeframes for potential restart on the Varg. I believe you said 2018 to 2020. I guess one correct me if I'm wrong. But two I know you got to hit the December window to get it in place and there is probably going to be some refurb or something on the asset.

But can you maybe give us a distribution of what we're looking at in terms of how many projects are, you know, slated for 2018, or any conversations are kind of geared more towards getting it trying to get this to speed sooner rather than later versus 2020 because it's - that's a pretty fair amount of downtime.

Kenneth Hvid: Yes, it really is three specific opportunities that we are looking at. And one of them, the earliest one would have a startup of what we are currently estimating at the end of '18 than we have one in the middle. And in '19 then we have one where we're looking at 2020.

And it's all part, as I said earlier part of the same spot on, right. It's a matrix of counterparty, upgrade scope duration of the contract we can expect the field, the risks associated with it that we are evaluating in parallel. So what we're focusing on is obviously maturing those projects for the remainder of this year, and then as we're honing in on the opportunity we're deciding which one is the best one for us. Just go for it.

Michael Webber: Okay so it sounds like it's pretty even kind of like the opportunity potentially either summer '18, summer '19 or December 2020 depending on how that would start?

Kenneth Hvid: That's right.

Michael Webber: Okay, great thanks a lot.

Operator: The next question comes from the line of (Oliver Corlett) of Fourth Street Capital. Please go ahead.

(Oliver Corlett): Hi, thanks for taking my questions. I wanted to ask about the shuttle market you said that the market is pretty tight and that fields are coming on, k maybe faster and earlier than you had thought. My impression of the North Sea at least, is that it's kind of a declining market. How do you explain the sort of continued blend activity there and what kind of or how much optimism do you have that, that's going to continue?

Kenneth Hvid: Yes, I think if you look at the overall production levels in the North Sea oil and gas combined you're absolutely right. I mean that's been a maturing declining market for the past decade for sure. But what we've also seen is that a lot of the medium size deals are developed with floating solutions and solutions where you don't have pipelines, and that's really the market where the shuttle tankers are capable for.

So whilst the overall production maybe going down we're actually seeing more lifting points in the North Sea and of course that's increasing the logistic need for the shuttle tankers which is really the flexible solution to the pipelines which the North Sea typically installed up against the larger producing fields.

So I think it's fair to say that the larger producing fields have been declining but that used to be pipeline volumes, but for the shuttle tanker volumes they are actually very solid and if we look at the supply which is for any shipping market the supplier of tanker tonnage there are no newbuilding orders coming into the North Sea that have been ordered, that are not already linked up to a project. So the supply of services is very tight as we move forward here.

(Oliver Corlett): Right, that make sense, I think in your 20-F you had said - there is a fairly substantial order book in that market. Does that bother you longer term also?

Kenneth Hvid: No, I don't think that relates to the shuttle tanker order book. There is not a substantial order book for the shuttle tanker.

(Crosstalk)

(Oliver Corlett): But I thought I read there was something like 85 something in that area of tankers on the water and another 20 odds in the order book but maybe I misread that.

Kenneth Hvid: Yes, maybe we can check that offline. I don't - those numbers don't sound right.

(Oliver Corlett): Okay, yes that's fine. Hopping back to the distributions again in your projections in terms of your leverage in that slide that you have, are you assuming in that slide that the distribution is going to be flat at 11 cents a quarter for that entire period?

Peter Evensen: No, that doesn't materially affect that. But as it relates to it we have assumed that the distribution doesn't move in order to achieve that leverage. If we re-fi the bonds earlier then we could change that.

(Oliver Corlett): But the amount of cash that you have on hand obviously in the net debt calculation is going to be effected by the distribution right so?

Peter Evensen: Yes, so you can assume that we haven't changed the distribution in that model.

(Oliver Corlett): So it's just staying at 11 cents?

Peter Evensen: But that is fairly where - but that will change as we refinance the bonds.

(Oliver Corlett): Okay and that level of distributions does that in any way affect your MLP spaces having such a low payout on the distributable cash flow?

Peter Evensen: No, it doesn't. It's just the representation that the board thought it was necessary to establish those reserves in order to repay the debt and completed its CAPEX but it is the intention to restore the distributions when we get our leverage down and now of course we have completed the capital expenditure program as we talked about on the call.

(Oliver Corlett): Right. Got you. Just one last question, in the DCF calculation you've been estimating maintenance CAPEX of about $40 million a quarter or somewhere in that range. But that doesn't seem to me the level that you're actually spending from your flow of funds statement. Am I missing, is it being expensed or am I missing something there? What's the disconnect?

David Wong: Yes, the maintenance CAPEX reserves is, I call it as a smooth number, which is basically calculated based on the estimated life of the assets and at a discount rate. And so whereas the CAPEX obviously is a lot more lumpy, especially in TOO with the lot of the growth projects delivering over the next few quarters. So there are some timing differences between the reserve which is smooth over a longer period of time versus the CAPEX timing.

(Oliver Corlett): But it's a pretty substantial difference over the period of time to date. I mean is there a lot of differed maintenance that we don't know about is really what I am getting, I guess?

David Wong: No, most of the reserve is related to maintaining the existing fleet and maintaining the existing cash flow generation capacity. In terms of maintenance CAPEX, I think you're referring to dry docking, those occur, you know, fairly on a regular basis. Typically, we have to dry dock the ships every five years. That is also built into the reserves. But most of the - majority of reserve is relating to replacing the existing fleet generation capacity, cash flow generation capacity.

(Oliver Corlett): Okay. All right, got you. All right, thank you very much. That's all I have.

Peter Evensen: Thank you.

Operator: There are no further questions in the queue. I would like to turn the call back to you Mr. Evensen.

Peter Evensen: All right, thank you all very much. We did a lot of project, a lot of work on the financing side this quarter. And I think everyone involved at Teekay and our banks and investors for all the support that they have. Now we're returning to focusing on the operations and in specifically reemploying some of the assets like the Varg, which we discussed on the Q&A call. So thank you all very much and we look forward to reporting back to you next quarter.

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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