# TEEKAY OFFSHORE PARTNERS LP

## Moderator: Peter Evensen
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## 11:00 am CT

Operator: Welcome to Teekay Offshore Partners' Third Quarter 2015 Earnings Results Conference Call. During the call, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a question and answer session. At that time if you have a question, participants are 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 conference over to Mr. Peter Evensen, Teekay Offshore Partners' chief executive officer. Please go ahead, sir.

(Cam): 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 third quarter 2015 earnings presentation. Mr. Evensen will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from the 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 2015 earnings release and earnings presentation available on our Web site. I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, (Cam). Good morning everyone, and thank you for joining us on our third quarter 2015 investor conference call. I'm joined today by Teekay Corporation's CFO Vince Lok;

Chief Strategy Officer, Kenneth Hvid; and MOP Controller David Wong. During our call today, I'll be walking through the earnings presentation, which can be found on our Web site.

Starting on Slide 3 of the presentation, I'll briefly review some of Teekay Offshore's recent highlights. The partnership generated distributable cash flow, or DCF, of $58.8 million in the third quarter of 2015, up 30% from the same period of the prior year.

While the DCF increased significantly from the prior year, our third quarter results were negatively impacted by a combination of seasonal and one-off items which, if excluded, would have resulted in an additional $11 million of DCF generated in the quarter.

This would have resulted in a DCF of approximately $70 million, and a coverage ratio of 1.02 times for the third quarter. As I'll discuss later, we expect the fourth quarter's coverage ratio to be more in line with the first half of 2015, which averaged 1.08 times.

Based on the increased cash flows generated during the quarter, Teekay Offshore increased its quarterly cash distributions by 4% to 56 cents per unit for the third quarter. This distribution will be paid on November 13.

Looking at our offshore production business, we completed our largest acquisition to date, purchasing the Knarr FPSO for $1.26 billion, from our sponsor, Teekay Corporation, on July 1. Concurrent with the acquisition, we completed $550 million of equity financing, including $300 million of common units issued to Teekay Corporation.

Turning to our offshore logistics business, in early September, one of the partnership's existing shuttle tankers, the Navion Hispania, commenced operations on the east coast of Canada, which is expected to provide additional distributable cash flow growth in the fourth quarter. Earlier this

year the partnership took over as the sole provider of shuttle tankers to oil companies operating offshore in east coast Canada.

Last week I had the pleasure of attending a customer event in St. John's, Newfoundland, where we've opened the newest Teekay office. I saw firsthand the opportunity we have to grow the shuttle business in that region, and new offshore fields are brought on in future years. Our customers believe that new production will continue to be developed, even in today's low oil price environment in the region.

The first chapter is already being written, as we're constructing three Suezmax size DP2 shuttle tanker newbuildings, which will serve under the 15-year contract, delivering in 2017 and 2018. Until their delivery, we will continue to in-charter two shuttle tankers to service the area's transportation requirements.

Finally, the partnership continues to secure long-term debt financing for its portfolio of growth projects, with the recent completion of a new $185 million long-term debt facility for our four state-of-the-art long-distance towing and offshore installation vessel newbuildings currently under construction, which are scheduled for delivery throughout 2016.

Turning to Slide 4, we continue to build on our book of forward fee-based revenues that support the partnership's stable and growing cash flows.

On this slide we've provided a breakdown of our existing contract portfolio of forward fee-based revenues of $8.2 billion, based on revenues attributable to our existing assets, which are currently in operation and which support our current cash distributions; and revenues attributable to our existing growth projects, which are expected to provide incremental coverage and cash distribution growth in the future.

Our portfolio of $5.6 billion of forward revenues related to our existing assets and operations, are contracted with oil majors where we are a critical component of their oil production and logistics chain, and therefore their revenue generation.

I would also note that the forward revenue figure excludes extension options. But we're not sitting still. In the current market environment, we're increasing our focus on extracting maximum cash flows from our existing assets, by implementing various cost reduction initiatives and fleet efficiencies, including operating our assets with higher up time and utilization.

We have no significant scheduled near-term contract expirations, and remain positive on the supply and demand fundamentals in the niche oil production segments in which we operate. We have an ongoing dialogue with our customers regarding re-contracting of our assets longer term as they become available, or exercising options on existing contracts.

In this lower oil price environment, we continue to see increased demand for our existing units, which provide a faster and more cost effective solution compared to the more expensive alternative, which would be newbuildings.

Our portfolio of new growth projects and associated forward fixed-rate revenues of $2.6 billion are scheduled to deliver and commence their respective long-term contracts between mid-2016 through the first half of 2018. We expect this portfolio will grow as we secure new charter contracts for our second accommodation newbuilding, and build a book of contracts for our towage newbuildings.

Overall our focus here is to execute on our existing committed growth projects, and ensure these projects deliver on time and budget, while continuing to seek charters for our unchartered growth projects.

Looking ahead, with the current weakness in the energy space and the MOP markets, including Teekay Offshore's equity valuation, we've adopted a new approach to future growth.

First of all, we've increased our hurdle rates for new projects, which takes into account both our ability to build and operate at a lower cost, and our slightly higher all-in cost of capital. As a reminder, we're able to debt finance our offshore assets up to 80%, the cost of which has declined over the past few years, which partially offsets the inflated cost of equity.

Secondly, we're prioritizing our capital allocation first to existing assets for contract redeployment and extensions and upgrades, followed by high quality, on-the-water M&A opportunities over large organic projects, which is what we expect to be - in what we expect to be a target-rich M&A environment over the next few years.

Turning to Slide 5, I'll provide some updates on our offshore production projects. The Petrojarl 1 FPSO will operate on the Atlanta field in the Santos Basin in offshore Brazil, that has an estimated reserve of 260 million barrels of oil equivalent. Petrojarl 1 will become an integral part of what is expected to be a much larger development over time.

The FPSO is undergoing upgrades at the Damen Shipyard in the Netherlands, and is expected to achieve first oil in mid-2016, which will be its 12th field redeployment. Petrojarl 1's upgrade solution is a great example of how we can use an existing unit to provide a faster and more cost effective solution to our customers, compared to a newbuilding alternative.

This is especially attractive given the current lower oil price environment. In addition, as we will be operating in a benign environment, we've also been able to extend the life of the FPSO for an additional ten years after its initial five-year contract term, which provides opportunities for contract extensions with QGEP or redeployment in the area after the initial term.

During the third quarter, the conversion achieved 50% of physical progress, and hull reinforcements and steel renewal work is expected to be completed during the fourth quarter.

Under its contract, the FPSO unit is expected to generate approximately $55 to $60 million of annual cash flow from vessel operations, and will be a strong contributor to increasing our distributable cash flow starting in mid-2016. During the third quarter, the partnership secured a $180 million long-term debt facility for the unit, used as the primary funding for the upgrades.

The Libra FPSO will operate on the larger Libra pre-sal field in the Santos space in offshore Brazil, that has an estimated reserve of 8 to 12 billion barrels of oil equivalent, which is currently considered to be the largest oil field offshore Brazil. This field is a high priority for the strong consortium of international partners, including Total, Shell, CNOOC, CNPC, and led by Petrobras.

Our FPSO will be used as an early well test unit to support a much larger development with multiple large FPSOs. The Libra FPSO is currently being converted from one of the partnership's existing shuttle tankers, the Navion Norvegia, at the Jurong Shipyard in Singapore, and is currently on schedule to achieve first oil in early 2017, at which point it will commence its 12-year contract.

During the third quarter, the vessel dry-docked for steel upgrades to the hull. Topside fabrication continued, and all long lead items were ordered. The partnership has already secured an $800 million long-term debt facility as the primary funding for the conversion.

Turning to Slide 6, I'll cover a few of our offshore logistics projects. The Gina Krog FSO will operate on the Gina Krog oil and gas field in the North Sea, which will be among Statoil's major new developments, with an estimated 225 million barrels of oil equivalent. The FSO is currently undergoing conversion using one of Teekay Offshore's existing shuttle tankers, the Randgrid, at the Sembawang Shipyard in Singapore.

During the third quarter, engineering was handed over to the yard, and the site team was fully mobilized with demolition and prefabrication work ongoing. The FSO unit is expected to commence its minimum three-year contract with Statoil in the second quarter of 2017. The contract also includes 12 additional one-year contract extension options.

The FSO is designed to operate for a minimum of 15 years of uninterrupted operations, without the need to leave the field for dry-docking. The partnership is currently in the process of securing a $230 million long-term debt facility as the primary funding for the conversion, which is expected to be finalized during the fourth quarter.

Looking at the partnership's long-haul towage business, our wholly owned subsidiary, ALP Maritime, has four state-of-the-art (Ostein)-designed newbuildings currently undergoing construction at the Niigata Shipyard in Japan, which are on schedule to deliver throughout 2016.

A major milestone was achieved by the ALP Striker, the first vessel scheduled to be delivered in the first quarter of 2016, as the vessel was successfully launched out of the shipyard's dry-dock in October.

These newbuildings incorporate powerful engines and higher fuel capacity, which reduced the number of stops required on long-haul voyages, getting the customer's offshore unit to its field faster and cheaper.

We're currently building a book of contracts for these four vessels, and anticipate having contracts in place prior to their deliveries. During the third quarter, the partnership secured a $185 million long-term debt facility as the primary funding source for the construction of these vessels.

Turning to Slide 7, it's important that our investors understand that the offshore production segment that Teekay Offshore operates in is critically different than offshore exploration in a low oil price environment. Oil companies are responding to low oil prices by cutting costs, which includes severe reductions in their exploration budgets.

This has significantly reduced the demand for deep-water drilling rigs, and has left roughly one-third of the drilling fleet idle. Unlike FPSOs, the drilling rig market is challenged by lower barriers to entry, with many units ordered on speculation and without contract coverage. Lower switching costs for the customer, and less market concentration, increases competitive pressures. And shorter duration charters lead to more volatile rates.

In contrast, FPSO units serve the production portion of the offshore value chain, which provides field owners and operators with much needed revenue and cash flow. FPSOs are also a more defendable and stable segment of the offshore market.

FPSOs are somewhat field specific, and built or converted to suit. This minimizes speculative ordering, and results in longer term time charters. Higher switching and friction costs for customers, and a significant market concentration result in less aggressive competitive pressures and more stable rates.

The greater stability of Teekay's FPSO segment makes Teekay Offshore Partners comparable to pipeline MLPs, rather than the more volatile exploration and production MLPs, whose level of activity is more correlated to oil prices. This positions TOO in an attractive and stable investment in the future of offshore energy production and logistics.

On Slide Number 8, I'll review our financial results for the third quarter of 2015, comparing components of the distributable cash flow for the third quarter of 2015 to the second quarter of

2015. For the full reconciliation of distributable cash flow to net income, please refer to Appendix B of our earnings release.

Looking at the bottom line, our coverage ratio decreased to 0.86 during the third quarter, compared to 1.06 times during the second quarter of 2015. The main factors contributing to the decrease in the coverage ratio for the third quarter include lower revenues for the Piranema Spirit FPSO, due to a shutdown for unscheduled repairs in the third quarter of 2015.

Lower shuttle tanker revenues related to a seasonal decrease in shuttle tanker utilization. The expiration of a long-term contract of a freight mentor in the second quarter. The scheduled dry-docking of the Nansen Spirit during the third quarter of 2015; and the redelivery of the Amundsen Spirit from the expiration of its time charger contract during the second quarter of 2015.

Lower towage vessel earnings due to a decrease in utilization and rates in the fleet during the third quarter. And an increase in the preferred unit distributions from the issuance of $250 million of Series C convertible units during the quarter. And a 4% increase in cash distributions on our common units for the third quarter of 2015.

These decreases were partially offset by the acquisition of the Knarr FPSO on July 1; and a full quarter of UMS earnings, due to the commencement of the Arendal Spirit's time charter contract during the second quarter of 2015, which also experienced some off-hire during the third quarter, related to damage to the gangway.

Turning to Slide 9, we've provided an adjustable distributable cash flow and resulting adjusted coverage ratio, to show the impact of seasonal and one-off items experienced in the third quarter.

The partnership's third quarter distributable cash flow was in line with our expectations; however, the results included the impact of regular seasonal maintenance of the North Sea oil fields, as well as temporary downtime associated with two of our offshore units.

Production was shut down on the Piranema Spirit FPSO for approximately 45 days in the third quarter, to complete topside pipeline repairs. All repair work has been completed, and the unit remains on hire, with no additional off-hire since the restart of production on August 12.

In addition, our new UMS, the Arendal Spirit, experienced 13 days of unscheduled off-hire during the third quarter, due to the damage to the gangway, which was caused when crew members did not lift the gangway quickly enough during bad weather. Since being fully repaired in early September, the unit has been operating on contract with Petrobras as expected.

Adjusting for these seasonal and one-off items, the partnership would have generated an additional approximately $11 million of DCF in the quarter, resulting in an adjusted distributable cash flow of $69.8 million, and an adjusted coverage ratio of 1.02 times.

Looking ahead to the fourth quarter with our fleet operating near full capacity, we expect our distributable cash flow and coverage ratio to be more in line with the results for the first half of 2015, which averaged 1.08 times. Please refer to the appendix to the presentation for additional details on our fourth quarter outlook.

Wrapping up today's call on Slide 10, Teekay Offshore's distributable cash flow remains stable and growing, supported by our strong operating track record, and a large, diversified contract portfolio of fee-based contracts which serve our customers' oil production requirements. Our $8.2 billion of forward revenues have no direct link to oil prices, and are contracted with strong counterparties.

Looking ahead, with continued growth in offshore production, we continue to seek new opportunities for higher return growth, including prioritizing capital first for redeployment of existing assets onto new contracts, followed by high quality on-the-water M&A that provides immediate accretion in what we expect to be a target-rich environment over the next few years.

And lastly, we continue to have access to competitive bank financing and multiple capital markets, as we continue to seek ways to diversify our sources of capital, as well as reduce our overall cost of capital.

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

Operator: Thank you. So, ladies and gentlemen, if you would like to ask a question, please signal by pressing the Star key followed by the digit 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

If you have signaled for a question prior to hearing these instructions on today's call, please repeat the process now by pressing Star 1 again, to ensure our equipment has captured your signal. We'll pause for just a moment to allow everyone an opportunity to signal for questions. First question comes from Spiro Dounis from UBS. Please go ahead.

Spiro Dounis: Hello again, Peter. Just wanted to touch real quick on the higher hurdle rates. I was just wondering what that means for multiples on future dropdowns. And I ask it in the context of, you know, I guess we've seen traditional midstream MLPs in that space kind of reduce multiples in recognition of the current, you know - currently challenged market.

And, you know, I guess when we're looking to the marine MLPs, is that kind of something you see coming?

Peter Evensen: No. The short answer is no, we don't. Teekay Corporation wants to maximize the cost or the value of its existing assets, and therefore they're waiting until they can re-contract those units, as well as lower their costs in order that the project is accretive.

So in terms of Teekay Offshore, we have enough growth, as I said, through the first half of 2018, that with our higher cost of capital we would rather put off those dropdowns, rather than lower the price in order to make them accretive. And we can do that because of the forward order book.

So we can see the distributable cash flow growth will go up just based on our organic projects. And so we think there will be a better time with lower cost of capital, which will make those projects as accretive as we had originally thought.

Spiro Dounis: Okay, that makes sense. And that kind of segues into the next question here for '16. So, you know, it looks like coverage should get back up above 1 next quarter, 1.08 if you take the average.

And I won't ask you for a precise figure, but just directionally, you know, I mean I guess where would you expect coverage to go in '16? And what I'm trying to get a sense of is, how much will the increased off-hire for next year kind of get offset by, you know, newer assets coming on line?

Male: We're saying that coverage for next year would be slightly lower than maybe what we do on average for this year. But the Petrojarl 1 coming on line will help us grow distributable cash flows as we mentioned there. So it overall keeps, I think, stable year over year.

Spiro Dounis: Okay, right. And I guess implicit in that is with those dropdowns, some sort of distribution increase, right?

Peter Evensen: That's right.

Spiro Dounis: Got it. And then just last one. So I believe you had two shuttle tankers come off charter in 2Q. And sorry if I missed it. What are the current status of those two shuttles?

Peter Evensen: They went back into our COA fleet. So we've used them and they're generating cash inside of our contract of affreightment fleet, which is where we actually needed them.

Spiro Dounis: That worked out. Great. That's it from me. Thanks, Ev.

Peter Evensen: Thank you.

Operator: The next question comes from Sunil Sabil, from Seaport Global Securities. Please go ahead.

Sunil Sabil: Yeah, hi. Good afternoon, guys. Couple of questions from me. First, I think you touched upon some opportunities in terms of your existing asset management costs, as illustrate efficiencies. I was wondering if you could talk about that a little bit, and kind of give us an idea of, you know, what kind of rent room you have there.

Peter Evensen: I'm sorry. I don't understand the question.

Sunil Sabil: I was wondering - I think you talked about, in your presentation, efforts on cost management and fleet efficiencies as part of managing to the current cycle. I was wondering if you could talk about that, and what kind of opportunity you have there and, you know, quantify that a little bit.

Kenneth Hvid: Yes, Ken is here. It's pretty clear what we've been through is basically a five-, six-year cycle where we know that we're seeing pressure on pretty much the entire supply chain throughout the offshore industry, which was of course reported by $100 oil, you can say.

And as we are seeing, everybody -- our customers, our peers in adjacent sectors -- are laying up assets and reducing their costs. Obviously that's something that's benefiting the wider industry. So we have a combination of things that come into us, which we're obviously also exploring, although we're not under the same pressures as those adjacent sectors.

But of course we benefit from lower pressures on salaries, which eases the supply chain having more slack from equipment manufacturers. We see that raw materials are down, so a lot of the index prices that we're using -- lube oil, fuel oil, et cetera -- is obviously down as well. And we see benefits from some of the displacements on various occurrences which are benefiting us.

So we're using this period very excellently to continue to drive our daily ((inaudible)) numbers down on all of the units that we have, and really looking to optimize that, because that's ultimately how we are focused on.

Sunil Sabil: Okay, that's helpful. And then in terms of the M&A environment, I think again your presentation touched upon accretive on-the-water acquisitions. I was wondering if you could, you know, describe how that market is evolving as you see opportunities in the marketplace currently.

Kenneth Hvid: Yeah, we see - first of all, our first priority is really investing the core segment that we're already in, just to be clear on that. And we see that our customers are obviously very focused on how they optimize their balance sheets going forward. We see that opportunities are arising out of that.

We see that players that have a strong operational platform that can extract more value from those assets sit in a very competitive position. And those are discussions that we're looking at, and having actually at the moment.

So that's really where we think we can bring value to our customers. That is our broader, very focused operational platform, where we can hopefully operate these assets more efficiently, and deliver efficiencies and cost savings to the industry.

Sunil Sabil: Okay, very helpful. That's all I had. Thanks.

Operator: The next question comes from Peter Ehret, from CRS. Please go ahead.

Peter Ehret: Hi, good morning. Thank you for taking the call. Just to go a little further on the M&A question here, if you're - a lot of nuances around this of course.

But when you look at valuations for M&A, and what you might have to pay, of course, and why you're buying floating stocks, you're buying assets, how do you think those prices will compare to, just say, newbuild prices? Do you think you're going to be able to buy assets at big discounts? Or what's the play there?

Kenneth Hvid: We see that some people, because of their different, new financial strategies, will come out and decide to divest. And we see a relatively small competitive landscape in terms of people that are interested in bidding on these assets. So opportunistically, yeah, we believe that that will create some opportunities.

The other benefit of that is, of course, that near-term growth or on-the-water growth, we can, with more certainty, look at the accretion of these assets, as opposed to when we're bidding on long-term contracts which have a stop with a three-years' out in time, where cost and other things are a bit more uncertain.

So the attraction to us is getting closer to our customers at a time where we know that their financial strategic alternatives are being looked at, and are shifting.

Peter Ehret: Okay. Just maybe a little bit bigger pictures here on just what valuations look like for ships, and what the opportunity is in the market. When you're looking at a ship today, when you're buying something, what sort of just full-cycle for that ship IRR does that generate, you know, just looking at what you can place a ship for? And obviously then there's dry-docking and there's eventually scrapping, but that life of ship IRR looks like what right now?

Kenneth Hvid: No, I wouldn't - and again, it's a little bit back to for competitive reasons, when we're bidding on long-term projects. So I wouldn't be going on commenting on that, because that's obviously what everybody's looking at.

Peter Ehret: Okay. I'm just trying to get at is that above your current cost of capital? Cost of capital's really gone up an awful lot. And so I'm just trying to get at the basic feasibility of the business. At this snapshot in time, are you able to acquire assets at your cost of capital that - where, you know, you're adding value where you can - where it's NPV positive?

Kenneth Hvid: Yeah, I mean if you look at the different segments that we're operating in, if you look at the shuttle line of business and the rates that we have there, and as we said many times on prior calls, that is really the floating pipelines for the offshore industry.

And if you look at the rates that are being paid on those there, they have historically been very, very stable. They tend to be a market where we're ordering up against other long-term contracts, or against expectation of oil to be lifted in a certain region -- mostly, of course, the North Sea, Brazil and east coast Canada.

So you don't see the same rate volatility on those assets. And we actually don't see those changes going forward either. I mean this is not an area where people are ordering speculatively.

Peter Evensen: What we also see on the cost of capital is obviously we're not very happy with our distribution dividend being, you know, round about 14%. But the fact of the matter is that's just part of the capital structure. And we are able to employ more debt which has a much lower cost going forward. So when we look at the overall cost of capital of an acquisition, we have to take - we have to look at the total cost. And we are able to make it work.

Peter Ehret: Okay, now with regard to the preferred issuance you did this summer, you got that done. But on the bond side, at least the US bond, that's trading at about 13.5%. And so I imagine that door's closed.

Male: Yeah, but when we look at the pricing of issue, that issue has no support. So that's kind of an aberration. So I don't take that as a...

Peter Ehret: Yeah, I hear you.

(Crosstalk)

Male: ...realistic mark to market. I don't.

Peter Ehret: Yeah, that's a fair point. But in terms of other sources of debt capital beyond just the secured markets, do you really - what would that look like today?

Peter Evensen: Well as you saw, we were able to do a convertible preferred going forward. And I think we can access other markets. But the majority of it would clearly be secured financing where, with the right contract and long enough - and the stability that Kenneth talked about, we can get ourselves up to 80%. We don't like to use that much, but in the short term we could make that work.

Peter Ehret: Okay. And pardon the ignorance on this point, but are those amortizing structures?

Peter Evensen: Yes.

Peter Ehret: Okay. Okay, good. Thank you for answering the questions.

Peter Evensen: Thank you.

Operator: The next question comes from Mike Webber from Wells Fargo. Please go ahead.

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

Peter Evensen: Good, thanks.

Mike Webber: Peter, just wanted to follow up around the new approach which echoes what we heard on Teekay LNG.

And just curious kind of specifically within the offshore space, we've seen actually your neighbor in Vancouver and some other players in kind of the more term-oriented shipping markets come up with larger scale JVs that end up helping the cost of capital, and deferring any sort of, you know, equity overhang to kind of facilitate consolidating the market during pockets where you've got an expanded cost of capital.

I'm just curious, you know - and I know it's something you guys have at least looked at. But, you know, when you look at your - you know, the funding possibilities for rolling up some of that fleet, maybe at '16 or '17, how viable is that?

Is that something you guys get approached about? There can't be that many natural buyers for these assets, particularly with any sort of operational background. And any color around that possibility? Because we've seen it happen in other markets.

Peter Evensen: Well we actually have people who come and want to co-invest with us on opportunities. But we're - you said the word consolidating. We're not interested in consolidating or rolling up the FPSO market. We're interested in, right now, looking at buying units with contracts from our customers. We will then decide whether we issue MOP equity; whether we employ more partners; whether we bring partners in a little higher in the capital structure.

But the big thing is to know, if we have joint venture financing partners, what their risk appetite is. And that is everything from five years with the ability to re-employ in what will probably be a higher rate, or people who want, you know, a more full-payout ten-year contract.

And I think we have that ability. But as Kenneth said, we're focusing in more on buying existing infrastructure assets and operating them safely and cheaper than our customers, which...

(Crosstalk)

Mike Webber: As the single owner outside of any JV structure, you're saying?

Peter Evensen: We could include partners. But they usually bring something besides capital.

Mike Webber: Okay. All right, that's helpful. The Petrojarl 1, you kind of highlighted that this quarter. And if memory serves, the terms on that - I think the payback is actually inside of that initial contract. So it made a basically kind of free residual value. I'm just curious.

You mentioned you're trying to do more of that kind of business. Is that the right benchmark to think about the kind of returns and what payback period you would need to kind of take an older asset like that, put some money into it, and then put it back out onto a field, like that kind of a short of a payback period? Is that a good hurdle rate? Or was that more of a one-off kind of solid deal?

Peter Evensen: No, I don't think so. But, Kenneth, you worked on that more. Why don't you answer that.

Kenneth Hvid: Yeah, I think Petrojarl 1 is, first of all, a very good example of how we see we can play in a new oil environment here, because it is exactly the asset that we talk a lot about -- existing assets that can be deployed faster and more cost effectively.

And as we invest here to - as mentioned earlier as well, we essentially operate the vessel for another 15 years of life. But we are on a firm contract with five years, which we feel very good about. And then there is a potential upside at the end of that.

And that's exactly the segment of redeployment that's all these medium size FPSOs that are ideally suited to go in on those medium size deals. Some of them will go on for longer, and others maybe have a five- to seven-year profile.

It is so that most of these fields, you never really know whether it's five years or whether the field can product for another three years, for example. That's not the cast on Petrojarl 1, but that's the case on a number of medium size fields in the North Sea that we look at.

And we see in this environment that the hurdles to make the big, say, $1.2 billion investment on a medium size field is much, much higher. And therefore the attraction of offering existing assets that can go in and produce - and maybe they don't produce 100% to perfection what it was that

you otherwise could have designed a new unit for, but it's good enough. And it's faster and it's more cost effective.

And I think that's exactly the market that Petrojarl 1 has actually played in over the years. This will be its 12th deployment. So that's exactly what it's been doing in the North Sea.

Peter Evensen: So when we competed on the Atlanta project, we -- with a budget including upgrades of about $250 million -- were competing up against a $1 billion FPSO. So we're getting $55 to $60 million in (CFBO). But that $1 billion FPSO would have needed much more in EBITDA or (CFBO).

So what you see is that translates to an oil company in a much higher oil price break even. And in the current environment, they will not go forward with a newbuilding, because that's a higher break even.

But by using an existing asset, as Kenneth was saying, we can lower down that break even, and therefore that would mean that that development can go forward, especially on these marginal fields. And these oil companies don't want to lose licenses. They either develop within a certain period of time, or they have to give back the license.

Mike Webber: Got you. No, that makes sense. Just two more and I'll turn it over. And I'm not sure if Vince is on the line or not, but around the Knarr on the quarter, if I just kind of parse through your slide in the back with the color on the P&L, which is always helpful, it looks like around $40 million of EBITDA from the Knarr on the quarter.

Curious around whether or not there is any incremental (NO) delivered on July 1, in terms of any cost that might not be there on a go-forward basis, whether we could see that move around by a million or two. Just trying to look for a run rate on that for the next couple quarters, beyond kind of what we have as like the general guidance.

Vince Lok: Yeah, Mike. As we got in before, the Knarr EBITDA is - it's about $140 million annualized, and that's pretty much what you saw in the third quarter. And I would expect that to be fairly stable going forward as well.

The contract does have certain features where we get higher reimbursements of OpEx, for example, in the first year. But for DCF and accounting purposes, we smooth that out over the life of the contract. So that's why we expect the cash flows to be fairly stable.

Mike Webber: Okay. Yeah, I'm backing out kind of ((inaudible)). I can follow up with you offline. And then I guess finally, Peter, I guess it was earlier in the quarter, Sevan was noted in the kind of widening Petrobras scandal, specifically the Piranema, which you guys acquired a couple years ago. Just curious.

I think it's 2 to 3% of your total cash flow, but just curious or hoping you can kind of talk to how Teekay approaches that scenario, the risk of any contagion. And then, you know, how it impacts the, you know - Sevan is on the block. Just how it impacts that potential sale, or whether you've got a view on that at all.

(Peter Evensen): So for the benefit of everyone, Sevan Marine is a company that we have a 40% interest in. And I don't really want to comment on what's going on with their legal case.

Mike Webber: Okay, that's fair. All right, guys. Thanks for the time. I appreciate it.

Peter Evensen: Thank you.

Operator: The next question comes from TJ Schultz from RBC. Please go ahead.

TJ Schultz: Great, thanks. Just one question. The comment that you wanted to maximize the value of the parent FPSOs, is that just a comment that you will wait on drops until MLP valuation improves, and you're still actively looking on contract extensions, and you'll just keep them at the parent level for the next couple of years? Or are you considering other options for those FPSOs?

Peter Evensen: So you can ask that question again tomorrow, TJ, but I'll answer it here today, which is that we continue to want to maximize the amount of value that Teekay Corporation gets to them. So I was directly answering the question, will you discount the value of those in order to make them more accretive? And the answer to that was no.

So we continue to look at each asset upstairs as its own asset, and want to maximize the value of that. At the same time, as I said, there is enough growth down at TOO that we don't feel that we have to increase it by, I guess I would say, dropping down the FPSOs at a lower price, which is what you need to do to make it accretive.

So we continue to look at each asset. And as Kenneth was saying, we see that there is a need by oil companies for the existing units. And so to the extent we can re-employ and get them with better contracts, we'll increase the net present value, which ultimately increases their value to both TOO, as well as to Teekay.

TJ Schultz: Okay, makes sense. Thanks, Peter.

Peter Evensen: Thank you.

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

Peter Evensen: All right. Thank you all very much. We look forward to reporting back with 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.

END