TEEKAY OFFSHORE PARTNERS L.P.

FORM 20-F

(Annual and Transition Report (foreign private issuer))

Filed 04/11/13 for the Period Ending 12/31/12

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

For the transition period from __________to __________

Commission file number 1-33198

TEEKAY OFFSHORE PARTNERS L.P.
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's Name into English)

Republic of The Marshall Islands
(Jurisdiction of incorporation or organization)

4 th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
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Securities registered, or to be registered, pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Units	New York Stock Exchange

Securities registered or to be registered, pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each issuer's classes of capital or common stock as of the close of the period covered by the annual report.

80,105,408 Common Units

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☒	Accelerated Filer ☐	Non-Accelerated Filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒	International Financial Reporting Standards as issued by the International Accounting Standards Board ☐	Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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TEEKAY OFFSHORE PARTNERS L.P.

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PART I

This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

Unless otherwise indicated, references in this Annual Report to "Teekay Offshore," "we," "us" and "our" and similar terms refer to Teekay Offshore Partners L.P. and/or one or more of its subsidiaries, except that those terms, when used in this Annual Report in connection with the common units described herein, shall mean specifically Teekay Offshore Partners L.P. References in this Annual Report to "Teekay Corporation" refer to Teekay Corporation and/or any one or more of its subsidiaries.

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words "expect," "intend," "plan," "believe," "anticipate," "estimate" and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this Annual Report include, in particular, statements regarding:

- our distribution policy and our ability to make cash distributions on our units or any increases in quarterly distributions;
- growth prospects of the offshore and tanker markets;
- our potential additional shuttle tanker, floating storage and off-take (or *FSO*) and floating production, storage and offloading (or *FPSO*) projects;
- the recent economic downturn and financial crisis in the global market, and potential negative effects on our customers' ability to charter our vessels and pay for our services;
- the completion of the acquisition of the *Voyageur Spirit* FPSO unit;
- the expected commencement date and estimated cost of FPSO projects;
- the expected delivery dates of newbuilding vessels or conversions of existing vessels;
- offshore and tanker market fundamentals, including the balance of supply and demand in the offshore and tanker markets;
- our competitive advantage in the shuttle tanker market;
- the expected lifespan of our vessels;
- the expected costs of newbuildings and vessel conversions;
- the estimated sales price or scrap value of vessels;
- estimated capital expenditures and our ability to fund them;
- expected increases in vessel operating expenses and charter rates for our vessels;
- our ability to maintain and expand long-term relationships with major crude oil companies, including our ability to service fields until they no longer produce;
- the derivation of a substantial majority of revenue from a limited number of customers;
- our ability to leverage to our advantage Teekay Corporation's relationships and reputation in the shipping industry;
- our continued ability to enter into fixed-rate time charters with customers;
- obtaining offshore projects that we or Teekay Corporation bid on or that Teekay Corporation is awarded;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term time charter;
- the ability of the counterparties to our derivative contracts to fulfill their contractual obligations;
- our expected financial flexibility to pursue acquisitions and other expansion opportunities;
- anticipated funds for liquidity needs and the sufficiency of cash flows;
- the future valuation of goodwill;
- our expectations as to any impairment of our vessels;
- our insurance coverage is adequate;
- the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business;
- the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;

- anticipated taxation of our partnership and its subsidiaries and taxation of unitholders;
- our general and administrative expenses as a public company and expenses under service agreements with other affiliates of Teekay Corporation and for reimbursements of fees and costs of Teekay Offshore GP L.L.C., our general partner (or the *General Partner*);
- our ability to avoid labor disruptions and attract and retain highly skilled personnel; and
- our business strategy and other plans and objectives for future operations.

Forward-looking statements are necessarily estimates reflecting the judgment of senior management, involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to, those factors discussed below in Item 3 – Key Information: Risk Factors and other factors detailed from time to time in other reports we file with the U.S. Securities and Exchange Commission (or the *SEC*).

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

Set forth below is selected consolidated financial and other data of Teekay Offshore Partners L.P. and its subsidiaries for the fiscal years 2008 through 2012, which have been derived from our audited consolidated financial statements.

The following tables should be read together with, and are qualified in their entirety by reference to, (a) Item 5: Operating and Financial Review and Prospects, included herein, and (b) the historical consolidated financial statements and the accompanying notes and the Report of Independent Registered Public Accounting Firm therein (which are included herein), with respect to the consolidated financial statements for each of the fiscal years ended December 31, 2010 through 2012.

From time to time we purchase vessels from Teekay Corporation.

In June 2008, we acquired from Teekay Corporation its interests in two 2008-built Aframax-class lightering tankers, the *SPT Explorer* and the *SPT Navigator* , together with their charter contracts. In September 2009, we acquired from Teekay Corporation its interest in an FPSO unit, the *Petrojarl Varg,* along with its operations and charter contracts. In April 2010, we acquired from Teekay Corporation an FSO unit, the *Falcon Spirit* , together with its charter contract. In October 2010, we acquired from Teekay Corporation the *Cidade de Rio das Ostras* (or *Rio das Ostras*) FPSO unit, along with its operations and charter contracts. In October 2010, we also acquired from Teekay Corporation a newbuilding shuttle tanker, the *Amundsen Spirit* , on charter to Statoil. In October 2011, we acquired a newbuilding shuttle tanker, the *Scott Spirit* , from Teekay Corporation.

These transactions were deemed to be business acquisitions between entities under common control. Accordingly, we have accounted for these transactions in a manner similar to the pooling of interest method, in which our financial statements prior to the date the interests in these vessels were actually acquired by us are retroactively adjusted to include the results of these acquired vessels. The periods retroactively adjusted include all periods that we and the acquired vessels were both under common control of Teekay Corporation and had begun operations. As a result, our applicable consolidated financial statements reflect these vessels and the results of operations of the vessels, referred to herein as the *Dropdown Predecessor* , as if we had acquired them when each respective vessel began operations under the ownership of Teekay Corporation. These vessels began operations on October 1, 2006 (*Petrojarl Varg*), January 7, 2008 (*SPT Explorer),* March 28, 2008 (*SPT Navigator*) , April 1, 2008 (*Rio das Ostras*), December 15, 2009 (*Falcon Spirit)* , July 30, 2010 *(Amundsen Spirit*) and July 22, 2011 (*Scott Spirit*). Please read Item 18 – Financial Statements: Note 2 – Dropdown Predecessor.

On October 1, 2010, we agreed to acquire Teekay Corporation's interests in two entities, which each own a newbuilding shuttle tanker, the *Nansen Spirit* and the *Peary Spirit* . We acquired the *Nansen Spirit* on December 10, 2010 and the *Peary Spirit* on August 2, 2011. As these entities were considered variable interest entities prior to their acquisition by us, our consolidated financial statements reflect the financial position, results of operations and cash flows of the *Peary Spirit* from October 1, 2010 to August 2, 2011, and the *Nansen Spirit* from October 1, 2010 to December 10, 2010, the dates the *Peary Spirit* and the *Nansen Spirit* were acquired by us from Teekay Corporation. Subsequent to our acquisition of the entities which own these two vessels, these entities continue to be consolidated in our results as we hold voting control.

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or *GAAP*).

	Year Ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands of US dollars, except per unit, unit and fleet data)				
Income Statement Data:					
Revenues	$ 931,394	$ 805,977	$ 840,663	$ 873,501	$ 926,137
Operating expenses:					
Voyage expenses (1)	199,887	96,871	113,508	106,377	116,111
Vessel operating expenses (2) (10)	237,618	248,026	255,561	279,963	284,712
Time-charter hire expense	132,234	117,202	89,795	74,478	56,989
Depreciation and amortization	151,365	165,140	174,861	176,483	193,383
General and administrative (10)	64,192	59,036	61,192	71,506	74,399
Goodwill impairment charge	149,129	—	—	—	—
Write down of vessels	—	—	9,441	36,868	23,430
Loss on sale of vessels	—	—	—	171	1,112
Restructuring charge	—	5,008	119	3,924	1,115
Total operating expenses	$ 934,425	$ 691,283	$ 704,477	$ 749,770	$ 751,251
(Loss) income from vessel operations	(3,031)	114,694	136,186	123,731	174,886
Interest expense	(90,212)	(49,361)	(36,576)	(36,216)	(47,799)
Interest income	4,224	1,232	842	659	1,027
Realized and unrealized (loss) gain on derivative instruments	(193,345)	51,944	(55,666)	(159,744)	(26,349)
Foreign currency exchange gain (loss) (3)	9,828	(11,184)	941	1,500	(313)
Other income - net	11,817	9,431	6,810	3,681	1,536
Income tax recovery (expense)	62,090	(13,792)	9,718	(6,679)	10,477
Net (loss) income from continuing operations	(198,629)	102,964	62,255	(73,068)	113,465
Net income (loss) from discontinued operations	8,080	17,838	16,608	(23,803)	9,550
Net (loss) income	$ (190,549)	$ 120,802	$ 78,863	$ (96,871)	$ 123,015
Non-controlling interests in net (loss) income from continuing operations	4,423	48,749	29,240	19,527	58
Non-controlling interests in net income (loss) from discontinued operations	6,066	8,741	8,138	2,927	—
Non-controlling interests in net (loss) income	10,489	57,490	37,378	22,454	58
Dropdown Predecessor's interest in net (loss) income	(182,071)	(419)	(16,685)	(15,075)	—
General Partner's interest in net (loss) income from continuing operations	195	2,163	3,723	3,293	10,196
General Partner's interest in net income (loss) from discontinued operations	(19)	360	636	1,103	859
General Partner's interest in net (loss) income	176	2,523	4,359	4,396	11,055
Limited partners' interest:					
Net (loss) income from continuing operations	(21,176)	52,471	45,977	(80,813)	103,211
Net (loss) income from continuing operations per:					
Common unit (basic and diluted) (4)	(0.72)	1.59	1.04	(1.29)	1.40
Subordinated unit (basic and diluted) (4)	(1.02)	1.54	—	—	—
Total unit (basic and diluted) (4)	(0.84)	1.58	1.04	(1.29)	1.40
Limited partners' interest:					
Limited partners' interest in net income (loss) from discontinued operations	2,033	8,737	7,834	(27,833)	8,691
Limited partners' interest in net income (loss) from discontinued operations per:					
Common unit (basic and diluted) (4)	0.07	0.26	0.18	(0.45)	0.12
Subordinated unit (basic and diluted) (4)	0.10	0.26	—	—	—
Total unit (basic and diluted) (4)	0.08	0.26	0.18	(0.45)	0.12
Limited partners' interest:					
Net (loss) income	(19,143)	61,208	53,811	(108,646)	111,902
Net (loss) income per:					
Common unit (basic and diluted) (4)	(0.65)	1.85	1.22	(1.74)	1.52
Subordinated unit (basic and diluted) (4)	(0.92)	1.80	—	—	—
Total unit (basic and diluted) (4)	(0.76)	1.84	1.22	(1.74)	1.52
Cash distributions declared per unit	1.65	1.80	1.88	1.98	2.04
Balance Sheet Data (at end of year):					
Cash and marketable securities	$ 138,621	$ 109,407	$ 166,483	$ 179,934	$ 206,339
Vessels and equipment (5)	2,244,100	2,120,688	2,299,507	2,585,586	2,454,623

Total assets	2,755,147	2,651,069	2,842,626	3,144,729	3,053,391
Total debt	2,096,105	2,045,055	1,717,140	2,029,076	1,769,632
Non-controlling interests [11]	201,383	219,692	212,601	78,929	72,950
Partners' equity and Dropdown Predecessor's equity	84,557	151,891	556,828	444,665	661,152
Accumulated other comprehensive (loss) income	(22,581)	(712)	745	(554)	(58)
Common units outstanding	20,425,000	27,900,000	55,237,500	70,626,554	80,105,108
Subordinated units outstanding	9,800,000	9,800,000	—	—	—
Cash Flow Data:					
Net cash provided by (used in):					
Operating activities	$ 198,319	$ 162,361	$ 286,585	$ 254,162	$ 267,494
Financing activities	123,188	(200,360)	(211,600)	35,318	(206,007)
Investing activities	(311,746)	8,785	(17,909)	(276,029)	(35,082)
Other Financial Data:					
Net revenues [6]	$ 731,507	$ 709,106	$ 727,155	$ 767,124	$ 810,026
EBITDA [7]	4,930	365,329	296,055	133,756	354,472
Adjusted EBITDA [7]	330,305	312,141	362,976	390,968	405,239
Expenditures for vessels and equipment [8]	74,123	14,260	40,645	148,480	87,408
Expenditures for dry docking [8]	29,075	41,864	23,637	26,407	19,122
Fleet data:					
Average number of shuttle tankers [9]	36.7	35.9	35.2	36.5	35.5
Average number of FPSO Units [9]	1.8	2.0	2.0	2.1	3.0
Average number of conventional tankers [9]	10.7	11.0	11.0	10.6	6.0
Average number of FSO units [9]	5.0	5.0	6.0	5.2	5.0

Le total de la trésorerie et des équivalents de trésorerie correspond à une seule position.

(1) Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions.
(2) Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses.
(3) Substantially all of these foreign currency exchange gains and losses were unrealized and not settled in cash. Under GAAP, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, accounts payable, advances from affiliates, deferred income taxes and long-term debt are revalued and reported based on the prevailing exchange rate at the end of the period. Starting in November 2010, foreign currency exchange gains and losses includes realized and unrealized gains and losses on the cross currency swaps.
(4) Net (loss) income per unit is determined by dividing net (loss) income, after deducting the amount of net (loss) income attributable to the Dropdown Predecessor, the non-controlling interests and the General Partner's interest, by the weighted-average number of units outstanding during the applicable period. We allocate the limited partners' interest in net (loss) income, including both distributed and undistributed net (loss) income, between continuing operations and discontinued operations based on the proportion of net (loss) income from continuing and discontinuing operations to total net (loss) income.
(5) Vessels and equipment consists of (a) vessels, at cost less accumulated depreciation and (b) advances on newbuildings.
(6) Consistent with general practice in the shipping industry, we use "net revenues" (defined as revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time charters, which assists us in making operating decisions about the deployment of vessels and their performance. Under time charters and bareboat charters, the charterer typically pays the voyage expenses, whereas under voyage charter contracts and contracts of affreightment the shipowner typically pays the voyage expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the shipowner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to the customers by charging higher rates under the contract or billing the expenses to them. As a result, although revenues from different types of contracts may vary, the "net revenues" are comparable across the different types of contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us than revenues, the most directly comparable GAAP financial measure. Net revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies in the shipping industry to industry averages. The following table reconciles net revenues with revenues.

	Year Ended December 31,				
	2008	**2009**	**2010**	**2011**	**2012**
Revenues	931,394	805,977	840,663	873,501	926,137
Voyage expenses	199,887	96,871	113,508	106,377	116,111
Net revenues	731,507	709,106	727,155	767,124	810,026

(7) EBITDA and Adjusted EBITDA are used as supplemental financial measures by management and by external users of our financial statements, such as investors, as discussed below.

- *Financial and operating performance.* EBITDA and Adjusted EBITDA assist our management and investors by increasing the comparability of the fundamental performance of us from period to period and against the fundamental performance of other companies in our industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization, which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net (loss) income between periods. We believe that including EBITDA and Adjusted EBITDA as a financial and operating measure benefits investors in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in assessing whether to continue to hold our common units.

- *Liquidity* . EBITDA and Adjusted EBITDA allow us to assess the ability of assets to generate cash sufficient to service debt, make distributions and undertake capital expenditures. By eliminating the cash flow effect resulting from the existing capitalization of us and other items such as dry-docking expenditures, working capital changes and foreign currency exchange gains and losses (which may vary significantly from period to period), EBITDA and Adjusted EBITDA provide a consistent measure of our ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) our proper capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of existing cash distribution commitments to unitholders. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits investors to assess our fundamental ability to generate cash sufficient to meet cash needs, including distributions on our common units.

Neither EBITDA nor Adjusted EBITDA, which are non-GAAP measures, should be considered as an alternative to net (loss) income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net (loss) income and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented in this Report may not be comparable to similarly titled measures of other companies.

The following table reconciles our historical consolidated EBITDA and Adjusted EBITDA to net (loss) income, and our historical consolidated Adjusted EBITDA to net operating cash flow.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands of US dollars)				
Reconciliation of “EBITDA” and “Adjusted EBITDA” to “Net (loss) income”:					
Net (loss) income	$(190,549)	$ 120,802	$ 78,863	$ (96,871)	$123,015
Depreciation and amortization	151,365	165,140	174,861	176,483	193,383
Interest expense, net of interest income	85,988	48,129	35,734	35,557	46,772
Income tax (recovery) expense	(62,090)	13,792	(9,718)	6,679	(10,477)
Depreciation and amortization and interest expense, net of interest income related to discontinued operations	20,216	17,466	16,315	11,908	1,779
EBITDA	$ 4,930	$ 365,329	$296,055	$133,756	$354,472
Write down of vessels	—	—	9,441	36,868	23,430
Loss on sale of vessels	—	—	—	171	1,112
Goodwill impairment charge	149,129	—	—	—	—
Restructuring charge	—	5,008	119	3,924	1,115
Unrealized loss (gain) on derivative instruments	175,456	(113,570)	5,618	107,860	(39,538)
Realized loss on interest rate swaps	21,470	51,084	49,224	58,475	58,596
Foreign exchange (gain) loss (i)	(9,841)	11,242	3,090	3,081	11,013
Amortization of in-process revenue contracts	(10,839)	(6,952)	(571)	(1,074)	(12,636)
Write down of vessels and loss on sale of vessels related to discontinued operations	—	—	—	54,069	7,675
Adjusted EBITDA	$ 330,305	$ 312,141	$362,976	$390,968	$405,239
Reconciliation of “Adjusted EBITDA” to “Net operating cash flow”:					
Net operating cash flow	$ 198,319	$ 162,361	$286,585	$254,162	$267,494
Expenditures for dry docking	29,075	41,864	23,637	26,407	19,122
Interest expense, net of interest income	85,988	48,129	35,734	35,557	46,772
Current income tax expense (recovery)	1,006	5,583	6,038	7,293	(1,669)
Realized loss (gain) on interest rate swaps	21,470	51,084	49,224	58,475	58,596
Change in working capital	(6,987)	(8,931)	(34,464)	11,296	17,447
Restructuring charge	—	5,008	119	3,924	1,115
Other, net	(1,751)	5,613	(4,732)	(6,827)	(4,169)
Interest expense, net of interest income related to discontinued operations	3,185	1,430	835	681	531
Adjusted EBITDA	$ 330,305	$ 312,141	$362,976	$390,968	$405,239

(i) Foreign exchange (gain) loss excludes the unrealized gain of $10.7 million (2011 – loss of $1.6 million, 2010 – gain of $4.0 million, 2009 and 2008 – $nil) on cross currency swaps, which is incorporated in unrealized loss (gain) on derivative instruments in the table.

(8) Expenditures for dry docking are disclosed on a cash basis. Expenditures for vessels and equipment excludes non-cash investing activities. Please read Item 18 – Financial Statements: Note 16 – Supplemental Cash Flow Information.

(9) Average number of vessels consists of the average number of owned and chartered-in vessels that were in our possession during a period, including the Dropdown Predecessor and those in discontinued operations.

(10) Vessel operating expenses and general and administrative expenses include unrealized gain (loss) on derivative instruments. Please read Item 18 – Financial Statements: Note 13 – Derivative Instruments.

(11) Non-controlling interests includes redeemable non-controlling interest. Please read Item 18 – Financial Statements: Note 15 (b) – Commitments and Contingencies.

Risk Factors

Our cash flow depends substantially on the ability of our subsidiaries to make distributions to us.

The source of our cash flow includes cash distributions from our subsidiaries. The amount of cash our subsidiaries can distribute to us principally depends upon the amount of cash they generate from their operations, which may fluctuate from quarter to quarter based on, among other things:

- the rates they obtain from their charters and contracts of affreightment (whereby our subsidiaries carry an agreed quantity of cargo for a customer over a specified trade route within a given period of time);
- the price and level of production of, and demand for, crude oil, particularly the level of production at the offshore oil fields our subsidiaries service under contracts of affreightment;
- the operating performance of our FPSO units, whereby receipt of incentive-based revenue from our FPSO units is dependent upon the fulfillment of the applicable performance criteria;
- the level of their operating costs, such as the cost of crews and repairs and maintenance;
- the number of off-hire days for their vessels and the timing of, and number of days required for, dry docking of vessels;
- the rates, if any, at which our subsidiaries may be able to redeploy shuttle tankers in the spot market as conventional oil tankers during any periods of reduced or terminated oil production at fields serviced by contracts of affreightment;
- delays in the delivery of any newbuildings or vessels undergoing conversion and the beginning of payments under charters relating to those vessels;
- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of business.

The actual amount of cash our subsidiaries have available for distribution also depends on other factors such as:

- the level of their capital expenditures, including for maintaining vessels or converting existing vessels for other uses and complying with regulations;
- their debt service requirements and restrictions on distributions contained in their debt instruments;
- fluctuations in their working capital needs;
- their ability to make working capital borrowings; and
- the amount of any cash reserves, including reserves for future maintenance capital expenditures, working capital and other matters, established by the Board of Directors of our General Partner at their discretion.

The amount of cash our subsidiaries generate from operations may differ materially from their profit or loss for the period, which will be affected by non-cash items. As a result of this and the other factors mentioned above, our subsidiaries may make cash distributions during periods when they record losses and may not make cash distributions during periods when they record net income.

We may not have sufficient cash from operations to enable us to pay the current level of distribution on our units or to maintain or increase distributions.

The source of our earnings and cash flow includes cash distributions from our subsidiaries. Therefore, the amount of distributions we are able to make to our unitholders will fluctuate based on the level of distributions made to us by our subsidiaries. Our subsidiaries may not make quarterly distributions at a level that will permit us to maintain or increase our quarterly distributions in the future. In addition, while we would expect to increase or decrease distributions to our common unitholders if our subsidiaries increase or decrease distributions to us, the timing and amount of any such increased or decreased distributions will not necessarily be comparable to the timing and amount of the increase or decrease in distributions made by our subsidiaries to us.

Our ability to distribute to our unitholders any cash we may receive from our subsidiaries is or may be limited by a number of factors, including, among others:

- interest expense and principal payments on any indebtedness we incur;
- distributions on any preferred units we may issue;

- restrictions on distributions contained in any of our current or future debt agreements;
- fees and expenses of us, our general partner, its affiliates or third parties we are required to reimburse or pay, including expenses we incur as a result of being a public company; and
- reserves our general partner believes are prudent for us to maintain for the proper conduct of our business or to provide for future distributions.

Many of these factors reduce the amount of cash we may otherwise have available for distribution. We may not be able to pay distributions, and any distributions we do make may not be at or above our current level of quarterly distribution. The actual amount of cash that is available for distribution to our unitholders depends on several factors, many of which are beyond the control of us or our general partner.

Our ability to grow and to meet our financial needs may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to distribute all of our available cash (as defined in our partnership agreement) each quarter. Accordingly, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations.

In determining the amount of cash available for distribution, the Board of Directors of our General Partner, in making the determination on our behalf, approves the amount of cash reserves to set aside, including reserves for future maintenance capital expenditures, working capital and other matters. We also rely upon external financing sources, including commercial borrowings, to fund our capital expenditures. Accordingly, to the extent we do not have sufficient cash reserves or are unable to obtain financing, our cash distribution policy may significantly impair our ability to meet our financial needs or to grow.

We must make substantial capital expenditures to maintain the operating capacity of our fleet, which reduces cash available for distribution. In addition, each quarter our general partner is required to deduct estimated maintenance capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance capital expenditures were deducted.

We must make substantial capital expenditures to maintain, over the long term, the operating capacity of our fleet. We intend to continue to expand our fleet, which would increase the level of our maintenance capital expenditures. Maintenance capital expenditures include capital expenditures associated with dry docking a vessel, modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain the operating capacity of our fleet. These expenditures could increase as a result of changes in:

- the cost of labor and materials;
- customer requirements;
- increases in fleet size or the cost of replacement vessels;
- governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and
- competitive standards.

In addition, actual maintenance capital expenditures vary significantly from quarter to quarter based on the number of vessels dry docked during that quarter. Certain repair and maintenance items are more efficient to complete while a vessel is in dry dock. Consequently, maintenance capital expenditures will typically increase in periods when there is an increase in the number of vessels dry docked. Significant maintenance capital expenditures reduce the amount of cash that we have available for distribution to our unitholders.

Our partnership agreement requires our general partner to deduct our estimated, rather than actual, maintenance capital expenditures from operating surplus each quarter in an effort to reduce fluctuations in operating surplus (as defined in our partnership agreement). The amount of estimated maintenance capital expenditures deducted from operating surplus is subject to review and change by the Conflicts Committee of our general partner at least once a year. In years when estimated maintenance capital expenditures are higher than actual maintenance capital expenditures, the amount of cash available for distribution to unitholders is lower than if actual maintenance capital expenditures were deducted from operating surplus. If our general partner underestimates the appropriate level of estimated maintenance capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures begin to exceed our previous estimates.

We require substantial capital expenditures to expand the size of our fleet. We generally are required to make significant installment payments for acquisitions of newbuilding vessels or for the conversion of existing vessels prior to their delivery and generation of revenue. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our ability to make cash distributions may be diminished or our financial leverage may increase or our unitholders may be diluted.

Currently, the total delivered cost for a shuttle tanker is approximately $65 to $150 million, the cost of converting an existing tanker to an FSO unit is approximately $50 to $200 million and the cost of an FPSO unit is approximately $100 million to $2 billion, although actual costs vary significantly depending on the market price charged by shipyards, the size and specifications of the vessel, governmental regulations and maritime self-regulatory organization standards.

We and Teekay Corporation regularly evaluate and pursue opportunities to provide marine transportation services and offshore oil production and storage services for new or expanding offshore projects. Under an omnibus agreement that we have entered into in connection with our initial public offering, Teekay Corporation is required to offer to us, within 365 days of their deliveries, certain shuttle tankers, FSO units and FPSO units Teekay Corporation owns or may acquire in the future, including certain vessels of Teekay Corporation’s subsidiary Teekay

Petrojarl AS (or *Teekay Petrojarl*), provided the vessels are servicing contracts with remaining durations of greater than three years. We may also acquire other vessels that Teekay Corporation may offer us from time to time and we intend to pursue direct acquisitions from third parties and new offshore projects. Neither we nor Teekay Corporation may be awarded charters or contracts of affreightment relating to any of the projects we pursue or it pursues, and we may choose not to purchase the vessels Teekay Corporation is required to offer to us under the omnibus agreement. If we elect pursuant to the omnibus agreement to obtain Teekay Corporation's interests in any projects Teekay Corporation may be awarded, or if we bid on and are awarded contracts relating to any offshore project, we will need to incur significant capital expenditures to buy Teekay Corporation's interest in these offshore projects or to build the offshore units.

We typically must pay between 10% to 20% of the purchase price of a shuttle tanker upon signing the purchase contract, even though delivery of the completed vessel will not occur until much later (approximately three to four years from the time the order is placed). During the construction period, we generally are required to make installment payments on newbuildings prior to their delivery, in addition to incurring financing, miscellaneous construction and project management costs. If we finance these acquisition costs by issuing debt or equity securities, we will increase the aggregate amount of interest or cash required to maintain our current level of quarterly distributions to unitholders prior to generating cash from the operation of the newbuilding.

To fund the remaining portion of existing or future capital expenditures, we will be required to use cash from operations or incur borrowings or raise capital through the sale of debt or additional equity securities. Use of cash from operations will reduce cash available for distribution to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for future capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to make cash distributions. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our current level of quarterly distributions to unitholders, which could have a material adverse effect on our ability to make cash distributions.

Our substantial debt levels may limit our flexibility in obtaining additional financing, refinancing credit facilities upon maturity, pursuing other business opportunities and paying distributions to you.

If we are awarded contracts for additional offshore projects or otherwise acquire additional vessels or businesses, our consolidated debt may significantly increase. As at December 31, 2012, our total debt was approximately $1.8 billion and we had the ability to borrow an additional $213.5 million under our revolving credit facilities, subject to limitations in the credit facilities. We may incur additional debt under these or future credit facilities. Two of our revolving credit facilities will mature in late 2014 and require an aggregate principal repayment of $570.4 million. Our level of debt could have important consequences to us, including:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes and our ability to refinance our credit facilities may be impaired or such financing may not be available on favorable terms;
- we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;
- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally; and
- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt depends upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Financing agreements containing operating and financial restrictions may restrict our business and financing activities.

The operating and financial restrictions and covenants in our financing arrangements and any future financing agreements for us could adversely affect our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, the arrangements may restrict the ability of us and our subsidiaries to:

- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- make dividends or distributions;
- make certain negative pledges and grant certain liens;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into a new line of business.

Six revolving credit facilities are guaranteed by us and certain of our subsidiaries for all outstanding amounts and contain covenants that require us to maintain the greater of a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months of maturity) of at least $75.0 million and 5.0% of the our total consolidated debt. Our remaining two revolving credit facilities are guaranteed by Teekay Corporation and contain covenants that require Teekay Corporation to maintain the greater of a minimum liquidity (cash and cash equivalents) of at least $50.0 million and 5.0% of Teekay Corporation's total consolidated debt which has recourse to Teekay Corporation. The revolving credit facilities are collateralized by first-priority mortgages granted on 29 of our vessels, together with other related security. The ability of Teekay

Corporation or us to comply with covenants and restrictions contained in debt instruments may be affected by events beyond their or our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, compliance with these covenants may be impaired. If restrictions, covenants, ratios or tests in the financing agreements are breached, a significant portion of the obligations may become immediately due and payable, and the lenders' commitment to make further loans may terminate. Neither Teekay Corporation nor we might have, or be able to obtain, sufficient funds to make these accelerated payments. In addition, obligations under our credit facilities are secured by certain vessels, and if we are unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets.

We have one revolving credit facility that requires us to maintain a vessel value to outstanding drawn principal balance ratio of a minimum of 105%. As at December 31, 2012, this ratio was 113%. The vessel value used in this ratio is the appraised value prepared by us based on second-hand sale and purchase market data. A further delay in the recovery of the conventional tanker market could negatively affect this ratio.

At December 31, 2012 we and Teekay Corporation were in compliance with all covenants in the credit facilities and long-term debt.

Restrictions in our debt agreements may prevent us or our subsidiaries from paying distributions.

The payment of principal and interest on our debt reduces cash available for distribution to us and on our units. In addition, our and our subsidiaries' financing agreements prohibit the payment of distributions upon the occurrence of the following events, among others:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to notify the lenders of any material oil spill or discharge of hazardous material, or of any action or claim related thereto;
- breach or lapse of any insurance with respect to vessels securing the facilities;
- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;
- default under other indebtedness;
- bankruptcy or insolvency events;
- failure of any representation or warranty to be materially correct;
- a change of control, as defined in the applicable agreement; and
- a material adverse effect, as defined in the applicable agreement.

We derive a substantial majority of our revenues from a limited number of customers, and the loss of any such customers could result in a significant loss of revenues and cash flow.

We have derived, and we believe we will continue to derive, a substantial majority of revenues and cash flow from a limited number of customers. Petrobras Transporte S.A., Statoil ASA, Talisman Energy Inc and Teekay Corporation accounted for approximately 28%, 21%, 13%, and 10%, and 24%, 24%, 13%, and 11%, respectively, of consolidated revenues from continuing operations during 2012 and 2011, respectively. Statoil ASA, Petrobras Transporte S.A., Talisman Energy Inc, and Teekay Corporation accounted for approximately 28%, 21%, 13%, and 10%, respectively, of consolidated revenues from continuing operations during 2010. No other customer accounted for 10% or more of revenues from continuing operations during any of these periods.

If we lose a key customer, we may be unable to obtain replacement long-term charters or contracts of affreightment and may become subject, with respect to any shuttle tankers redeployed on conventional oil tanker trades, to the volatile spot market, which is highly competitive and subject to significant price fluctuations. If a customer exercises its right under some charters to purchase the vessel, we may be unable to acquire an adequate replacement vessel. Any replacement newbuilding would not generate revenues during its construction and we may be unable to charter any replacement vessel on terms as favorable to us as those of the terminated charter.

The loss of any of our significant customers could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

We depend on Teekay Corporation to assist us in operating our businesses and competing in our markets.

We and our operating subsidiaries have entered into various services agreements with certain subsidiaries of Teekay Corporation pursuant to which those subsidiaries will provide to us all of our administrative services and to the operating subsidiaries substantially all of their managerial, operational and administrative services (including vessel maintenance, crewing, crew training, purchasing, shipyard supervision, insurance and financial services) and other technical and advisory services. Our operational success and ability to execute our growth strategy depends significantly upon the satisfactory performance of these services by the Teekay Corporation subsidiaries. Our business will be harmed if such subsidiaries fail to perform these services satisfactorily or if they stop providing these services to us or our operating subsidiaries.

Our ability to compete for offshore oil marine transportation, processing and storage projects and to enter into new charters or contracts of affreightment and expand our customer relationships depends largely on our ability to leverage our relationship with Teekay Corporation and its reputation and relationships in the shipping industry. If Teekay Corporation suffers material damage to its reputation or relationships, it may harm the ability of us or other subsidiaries to:

- renew existing charters and contracts of affreightment upon their expiration;

- obtain new charters and contracts of affreightment;
- successfully interact with shipyards during periods of shipyard construction constraints;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with suppliers and other third parties.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Our operating subsidiaries may also contract with certain subsidiaries of Teekay Corporation for the Teekay Corporation subsidiaries to have newbuildings constructed or existing vessels converted on behalf of the operating subsidiaries and to incur the construction-related financing. The operating subsidiaries would purchase the vessels on or after delivery based on an agreed-upon price. None of our operating subsidiaries currently has this type of arrangement with Teekay Corporation or any of its affiliates.

Our growth depends on continued growth in demand for offshore oil transportation, processing and storage services.

Our growth strategy focuses on expansion in the shuttle tanker, FSO and FPSO sectors. Accordingly, our growth depends on continued growth in world and regional demand for these offshore services, which could be negatively affected by a number of factors, such as:

- decreases in the actual or projected price of oil, which could lead to a reduction in or termination of production of oil at certain fields we service or a reduction in exploration for or development of new offshore oil fields;
- increases in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;
- decreases in the consumption of oil due to increases in its price relative to other energy sources, other factors making consumption of oil less attractive or energy conservation measures;
- availability of new, alternative energy sources; and
- negative global or regional economic or political conditions, particularly in oil consuming regions, which could reduce energy consumption or its growth. Reduced demand for offshore marine transportation, processing or storage services would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

Because payments under our contracts of affreightment are based on the volume of oil transported and a portion of the payments under our FPSO units operations contracts are based on the volume of oil produced, utilization of our shuttle tanker fleet, the success of our shuttle tanker business and the revenue from our FPSO units depends upon continued production from existing or new oil fields, which is beyond our control and generally declines naturally over time.

A portion of our shuttle tankers operate under contracts of affreightment. Payments under these contracts of affreightment are based upon the volume of oil transported, which depends upon the level of oil production at the fields we service under the contracts. Payments made to us under FPSO operations contracts are partially based on an incentive component, which is determined by the volume of oil produced. Oil production levels are affected by several factors, all of which are beyond our control, including: geologic factors, including general declines in production that occur naturally over time; mechanical failure or operator error; the rate of technical developments in extracting oil and related infrastructure and implementation costs; the availability of necessary drilling and other governmental permits; the availability of qualified personnel and equipment; strikes, employee lockouts or other labor unrest; and regulatory changes. In addition, the volume of oil produced may be adversely affected by extended repairs to oil field installations or suspensions of field operations as a result of oil spills or otherwise.

The rate of oil production at fields we service may decline from existing or future levels. If such a reduction occurs, the spot market rates in the conventional oil tanker trades at which we may be able to redeploy the affected shuttle tankers may be lower than the rates previously earned by the vessels under the contracts of affreightment. We may receive a reduced production incentive payment or no production incentive payment under the *Petrojarl Varg* operations contract depending on production levels. Talisman Energy Norge AS (or *Talisman Energy*) may terminate the *Petrojarl Varg* operations contract if the Varg field does not yield sufficient revenues. Low spot market rates for the shuttle tankers or any idle time prior to the commencement of a new contract or our inability to redeploy any of our FPSO units at an acceptable rate may have an adverse effect on our business and operating results.

The duration of many of our shuttle tanker, FSO and FPSO contracts is the life of the relevant oil field or is subject to extension by the field operator or vessel charterer. If the oil field no longer produces oil or is abandoned or the contract term is not extended, we will no longer generate revenue under the related contract and will need to seek to redeploy affected vessels.

Many of our shuttle tanker contracts have a “life-of-field” duration, which means that the contract continues until oil production at the field ceases. If production terminates for any reason, we no longer will generate revenue under the related contract. Other shuttle tanker, FSO and FPSO contracts under which our vessels operate are subject to extensions beyond their initial term. The likelihood of these contracts being extended may be negatively affected by reductions in oil field reserves, low oil prices generally or other factors. If we are unable to promptly redeploy any affected vessels at rates at least equal to those under the contracts, if at all, our operating results will be harmed. Any potential redeployment may not be under long-term contracts, which may affect the stability of our cash flow and our ability to make cash distributions. FPSO units, in particular, are specialized vessels that have very limited alternative uses and high fixed costs. In addition, FPSO units typically require substantial capital investments prior to being redeployed to a new field and production service agreement. Any idle time prior to the commencement of a new contract or our inability to redeploy the vessels at acceptable rates may have an adverse effect on our business and operating results.

Future adverse economic conditions, including disruptions in the global credit markets, could adversely affect our results of operations.

In recent years, the global economy experienced an economic downturn and crisis in the global financial markets that produced illiquidity in the capital markets, market volatility, heightened exposure to interest rate and credit risks and reduced access to capital markets. If there is economic instability in the future, we may face restricted access to the capital markets or secured debt lenders, such as our revolving credit facilities. The decreased access to such resources could have a material adverse effect on our business, financial condition and results of operations.

Future adverse economic conditions may affect our customers' ability to charter our vessels and pay for our services and may adversely affect our business and results of operations .

Future adverse economic conditions may lead to a decline in our customers' operations or ability to pay for our services, which could result in decreased demand for our vessels and services. Our customer's inability to pay could also result in their default on our current contracts and charters. The decline in the amount of services requested by our customers or their default on our contracts with them could have a material adverse effect on our business, financial condition and results of operations.

The results of our shuttle tanker operations in the North Sea are subject to seasonal fluctuations.

Due to harsh winter weather conditions, oil field operators in the North Sea typically schedule oil platform and other infrastructure repairs and maintenance during the summer months. Because the North Sea is one of our primary existing offshore oil markets, this seasonal repair and maintenance activity contributes to quarter-to-quarter volatility in our results of operations, as oil production typically is lower in the second and third quarters in this region compared with production in the first and fourth quarters. Because a portion of our North Sea shuttle tankers operate under contracts of affreightment, under which revenue is based on the volume of oil transported, the results of these shuttle tanker operations in the North Sea under these contracts generally reflect this seasonal production pattern. When we redeploy affected shuttle tankers as conventional oil tankers while platform maintenance and repairs are conducted, the overall financial results for the North Sea shuttle tanker operations may be negatively affected as the rates in the conventional oil tanker markets at times may be lower than contract of affreightment rates. In addition, we seek to coordinate some of the general dry-docking schedule of our fleet with this seasonality, which may result in lower revenues and increased dry-docking expenses during the summer months.

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we will face substantial competition.

One of our principal objectives is to enter into additional long-term, fixed-rate time charters and contracts of affreightment. The process of obtaining new long-term time charters and contracts of affreightment is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. Shuttle tanker, FSO and FPSO contracts are awarded based upon a variety of factors relating to the vessel operator, including:

- industry relationships and reputation for customer service and safety;
- experience and quality of ship operations;
- quality, experience and technical capability of the crew;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

We expect substantial competition for providing services for potential shuttle tanker, FSO and FPSO projects from a number of experienced companies, including state-sponsored entities. Our Aframax conventional tanker business also faces substantial competition from major oil companies, independent owners and operators and other sized tankers. Many of our competitors have significantly greater financial resources than do we, or Teekay Corporation, which also may compete with us. We anticipate that an increasing number of marine transportation companies – including many with strong reputations and extensive resources and experience – will enter the FSO and FPSO sectors. This increased competition may cause greater price competition for charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Delays in deliveries of newbuilding vessels or of conversions of existing vessels could harm our operating results.

The delivery of any newbuildings or vessel conversions we may order could be delayed, which would delay our receipt of revenues under the charters or other contracts related to the vessels. In addition, under some charters we may enter into that are related to a newbuilding or conversion, if our delivery of the newbuilding or converted vessel to our customer is delayed, we may be required to pay liquidated damages during the delay. For prolonged delays, the customer may terminate the charter and, in addition to the resulting loss of revenues, we may be responsible for substantial liquidated damages.

The completion and delivery of newbuildings or vessel conversions could be delayed because of:

- quality or engineering problems, the risk of which may be increased with FPSO units due to their technical complexity;
- changes in governmental regulations or maritime self-regulatory organization standards;
- work stoppages or other labor disturbances at the shipyard;

- bankruptcy or other financial crisis of the shipbuilder;
- a backlog of orders at the shipyard;
- political or economic disturbances;
- weather interference or catastrophic event, such as a major earthquake or fire;
- requests for changes to the original vessel specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- inability to finance the construction or conversion of the vessels; or
- inability to obtain requisite permits or approvals.

If delivery of a vessel is materially delayed, it could adversely affect our results of operations and financial condition and our ability to make cash distributions.

Charter rates for conventional oil tankers may fluctuate substantially over time and may be lower when we are attempting to recharter conventional oil tankers, which could adversely affect operating results. Any changes in charter rates for shuttle tankers or FSO or FPSO units could also adversely affect redeployment opportunities for those vessels.

Our ability to recharter our conventional oil tankers following expiration of existing time-charter contracts and the rates payable upon any renewal or replacement charters will depend upon, among other things, the state of the conventional tanker market. Conventional oil tanker trades are highly competitive and have experienced significant fluctuations in charter rates based on, among other things, oil and vessel demand. For example, an oversupply of conventional oil tankers can significantly reduce their charter rates. There also exists some volatility in charter rates for shuttle tankers and FSO and FPSO units.

Over time, the value of our vessels may decline, which could adversely affect our operating results.

Vessel values for shuttle tankers, conventional oil tankers, FSO and FPSO units can fluctuate substantially over time due to a number of different factors, including:

- prevailing economic conditions in oil and energy markets;
- a substantial or extended decline in demand for oil;
- increases in the supply of vessel capacity;
- the cost of retrofitting or modifying existing vessels, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise; and
- a decrease in oil reserves in the fields and other fields in which our FPSO units might otherwise be deployed.

Vessel values may decline from existing levels, and vessel values in particular have declined over the past few years. If operation of a vessel is not profitable, or if we cannot re-deploy a vessel at attractive rates upon termination of its contract, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a reasonable value could result in a loss on its sale and adversely affect our results of operations and financial condition. Further, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil industry relating to climate change may also adversely affect demand for our services. Although we do not expect that demand for oil will lessen dramatically over the short term, in the long term climate change may reduce the demand for oil or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

We may be unable to make or realize expected benefits from acquisitions, and implementing our growth strategy through acquisitions may harm our business, financial condition and operating results.

Our growth strategy includes selectively acquiring existing shuttle tankers and FSO and FPSO units or businesses that own or operate these types of vessels. Historically, there have been very few purchases of existing vessels and businesses in the FSO and FPSO segments. Factors that may contribute to a limited number of acquisition opportunities for FSO units and FPSO units in the near term include the relatively small number of independent FSO and FPSO fleet owners. In addition, competition from other companies, many of which have significantly greater financial resources than do we or Teekay Corporation, could reduce our acquisition opportunities or cause us to pay higher prices.

Any acquisition of a vessel or business may not be profitable at or after the time of acquisition and may not generate cash flow sufficient to justify the investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

Unlike newbuildings, existing vessels typically do not carry warranties as to their condition. While we generally inspect existing vessels prior to purchase, such an inspection would normally not provide us with as much knowledge of a vessel's condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flow and reduce our liquidity.

Our substantial operations outside the United States expose us to political, governmental and economic instability, which could harm our operations.

Because our operations are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We derive some of our revenues from shipping oil from politically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping. Hostilities or other political instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries in Southeast Asia or elsewhere as a result of terrorist attacks, hostilities or otherwise may limit trading activities with those countries, which could also harm our business and ability to make cash distributions. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flow and financial results.

Marine transportation is inherently risky, particularly in the extreme conditions in which many of our vessels operate. An incident involving significant loss of product or environmental contamination by any of our vessels could harm our reputation and business.

Vessels and their cargoes and oil production facilities we service are at risk of being damaged or lost because of events such as:

- marine disasters;
- bad weather;
- mechanical failures;
- grounding, capsizing, fire, explosions and collisions;
- piracy;
- human error; and
- war and terrorism.

Our shuttle tanker fleet and the *Petrojarl Varg* FPSO unit operate in the North Sea. Harsh weather conditions in this region and other regions in which our vessels operate may increase the risk of collisions, oil spills, or mechanical failures.

An accident involving any of our vessels could result in any of the following:

- death or injury to persons, loss of property or damage to the environment and natural resources;
- delays in the delivery of cargo;
- loss of revenues from charters or contracts of affreightment;
- liabilities or costs to recover any spilled oil or other petroleum products and to restore the eco-system affected by the spill;
- governmental fines, penalties or restrictions on conducting business;
- higher insurance rates; and
- damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition and operating results. In addition, any damage to, or environmental contamination involving, oil production facilities serviced could suspend that service and result in loss of revenues.

Our insurance may not be sufficient to cover losses that may occur to our property or as a result of our operations.

The operation of shuttle tankers, conventional oil tankers and FSO and FPSO units is inherently risky. All risks may not be adequately insured against, and any particular claim may not be paid by insurance. In addition, substantially all of our vessels are not insured against loss of revenues resulting from vessel off-hire time, based on the cost of this insurance compared to our off-hire experience. Any significant off-hire time of our vessels could harm our business, operating results and financial condition. Any claims relating to our operations covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain insurance coverage is maintained through mutual protection and indemnity associations, and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill or marine disaster could exceed the insurance coverage, which could harm our business, financial condition and operating results. Any uninsured or underinsured loss could harm our business and financial condition. In addition, the insurance may be voidable by the insurers as a result of certain actions, such as vessels failing to maintain certification with applicable maritime self-regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult to obtain. In addition, the insurance that may be available may be significantly more expensive than existing coverage.

We may experience operational problems with vessels that reduce revenue and increase costs.

Shuttle tankers, FSO units and FPSO units are complex and their operations are technically challenging. Marine transportation operations are subject to mechanical risks and problems. Operational problems may lead to loss of revenue or higher than anticipated operating expenses or require additional capital expenditures. Any of these results could harm our business, financial condition and operating results.

Terrorist attacks, piracy, increased hostilities or war could lead to further economic instability, increased costs and disruption of business.

Terrorist attacks, piracy and the current conflicts in the Middle East, and other current and future conflicts, may adversely affect our business, operating results, financial condition, and ability to raise capital and future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of oil production and distribution, which could result in reduced demand for our services.

In addition, oil facilities, shipyards, vessels, pipelines, oil fields or other infrastructure could be targets of future terrorist attacks and our vessels could be targets of pirates or hijackers. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport oil to or from certain locations. Terrorist attacks, war, piracy, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of oil to be shipped by us could entitle customers to terminate the charters and impact the use of shuttle tankers under contracts of affreightment, which would harm our cash flow and business.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and the Gulf of Aden off the coast of Somalia. In recent years, the frequency and severity of piracy incidents has significantly increased, particularly in the Gulf of Aden and Indian Ocean. If these piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war risk insurance premiums payable for such coverage can increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ on-board security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

The offshore shipping and storage industry is subject to substantial environmental and other regulations, which may significantly limit operations or increase expenses.

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, discharges to air and water, and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution. In addition, we believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with our operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels. Please see Item 4. Information on the Partnership – B. Business Overview – Regulations for important information on these regulations, including potential impacts on us.

Exposure to currency exchange rate fluctuations results in fluctuations in cash flows and operating results.

We currently are paid partly in Norwegian Kroner under some of our time charters and contracts of affreightment. In addition, we and our operating subsidiaries have entered into services agreements with certain subsidiaries of Teekay Corporation pursuant to which those subsidiaries provide to us administrative services and to our operating subsidiaries managerial, operational and administrative services. Under the services agreements, the applicable subsidiaries of Teekay Corporation are paid in U.S. dollars for reasonable direct and indirect expenses incurred in providing the services. A substantial majority of those expenses are in Norwegian Kroner. Fluctuating exchange rates may result in increased payments by us under the services agreements if the strength of the U.S. Dollar declines relative to the Norwegian Kroner. We have entered into foreign currency forward contracts to economically hedge portions of our forecasted expenditures denominated in Norwegian Kroner. We also incur interest expense on our Norwegian Kroner-denominated bonds. We have entered into cross-currency swaps to economically hedge the foreign exchange risk on the principal and interest.

Many seafaring employees are covered by collective bargaining agreements and the failure to renew those agreements or any future labor agreements may disrupt operations and adversely affect our cash flows.

A significant portion of Teekay Corporation's seafarers that crew certain of our vessels and Norwegian-based onshore operational staff that provide services to us are employed under collective bargaining agreements. Teekay Corporation may become subject to additional labor agreements in the future. Teekay Corporation may suffer labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. The collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Salaries are typically renegotiated annually or bi-annually for seafarers and annually for onshore operational staff and higher compensation levels will increase our costs of operations. Although these negotiations have not caused labor disruptions in the past, any future labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition and ability to make cash distributions.

Teekay Corporation may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business, or may have to pay substantially increased costs for its employees and crew.

Our success depends in large part on Teekay Corporation's ability to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crew members is intense, and crew manning costs continue to increase. If we are not able to increase our rates to compensate for any crew cost increases, our financial condition and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Teekay Corporation and its affiliates may engage in competition with us.

Teekay Corporation and its affiliates may engage in competition with us. Pursuant to an omnibus agreement we entered into in connection with our initial public offering, Teekay Corporation, Teekay LNG Partners L.P. (NYSE: TGP) and their respective controlled affiliates (other than us and our subsidiaries) generally have agreed not to engage in, acquire or invest in any business that owns, operates or charters (a) dynamically-positioned shuttle tankers (other than those operating in the conventional oil tanker trade under contracts with a remaining duration of less than three years, excluding extension options), (b) FSO units or (c) FPSO units (collectively *offshore vessels*) without the consent of our general partner. The omnibus agreement, however, allows Teekay Corporation, Teekay LNG Partners L.P. and any of such controlled affiliates to:

- own, operate and charter offshore vessels if the remaining duration of the time charter or contract of affreightment for the vessel, excluding any extension options, is less than three years;
- own, operate and charter offshore vessels and related time charters or contracts of affreightment acquired as part of a business or package of assets and operating or chartering those vessels if a majority of the value of the total assets or business acquired is not attributable to the offshore vessels and related contracts, as determined in good faith by Teekay Corporation's Board of Directors or the conflicts committee of the Board of Directors of Teekay LNG Partners L.P.'s general partner, as applicable; however, if at any time Teekay Corporation or Teekay LNG Partners L.P. completes such an acquisition, it must, within 365 days of the closing of the transaction, offer to sell the offshore vessels and related contracts to us for their fair market value plus any additional tax or other similar costs to Teekay Corporation or Teekay LNG Partners L.P. that would be required to transfer the vessels and contracts to us separately from the acquired business or package of assets; or
- own, operate and charter offshore vessels and related time charters and contracts of affreightment that relate to tenders, bids or awards for an offshore project that Teekay Corporation or any of its subsidiaries submits or receives; however, at least 365 days after the delivery date of any such offshore vessel, Teekay Corporation must offer to sell the vessel and related time charter or contract of affreightment to us, with the vessel valued (a) for newbuildings originally contracted by Teekay Corporation, at its "fully-built-up cost" (which represents the aggregate expenditures incurred (or to be incurred prior to delivery to us) by Teekay Corporation to acquire, construct and/or convert and bring such offshore vessel to the condition and location necessary for our intended use, plus project development costs for completed projects and projects that were not completed but, if completed, would have been subject to

an offer to us) and (b) for any other vessels, Teekay Corporation's cost to acquire a newbuilding from a third party or the fair market value of an existing vessel, as applicable, plus in each case any subsequent expenditures that would be included in the "fully-built-up cost" of converting the vessel prior to delivery to us.

If we decline the offer to purchase the offshore vessels and time charters described above, Teekay Corporation or Teekay LNG Partners L.P., as applicable, may own and operate the offshore vessels, but may not expand that portion of its business.

In addition, pursuant to the omnibus agreement, Teekay Corporation, Teekay LNG Partners L.P. and any of their respective controlled affiliates (other than us and our subsidiaries) may:

- acquire, operate and charter offshore vessels and related time charters and contracts of affreightment if our general partner has previously advised Teekay Corporation or Teekay LNG Partners L.P. that our general partner's Board of Directors has elected, with the approval of its Conflicts Committee, not to cause us or our controlled affiliates to acquire or operate the vessels and related time charters and contracts of affreightment;
- acquire up to a 9.9% equity ownership, voting or profit participation interest in any publicly-traded company that engages in, acquires or invests in any business that owns or operates or charters offshore vessels and related time charters and contracts of affreightment;
- provide ship management services relating to owning, operating or chartering offshore vessels and related time charters and contracts of affreightment; or
- own a limited partner interest in Teekay Offshore Operating L.P. (or *OPCO*) or own shares of Teekay Petrojarl.

If there is a change of control of Teekay Corporation or of the general partner of Teekay LNG Partners L.P., the non-competition provisions of the omnibus agreement may terminate, which termination could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Our general partner and its other affiliates own a controlling interest in us and have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to those of unitholders.

As at March 1, 2013, Teekay Corporation indirectly owns the 2.0% general partner interest and a 27.36% limited partner interest in us and controls our general partner, which controls us. Although our general partner has a fiduciary duty to manage us in a manner beneficial to us and our unitholders, the directors and officers of our general partner have a fiduciary duty to manage our general partner in a manner beneficial to Teekay Corporation. Furthermore, certain directors and officers of our general partner are directors or officers of affiliates of our general partner. Conflicts of interest may arise between Teekay Corporation and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires Teekay Corporation or its affiliates (other than our general partner) to pursue a business strategy that favors us or utilizes our assets, and Teekay Corporation's officers and directors have a fiduciary duty to make decisions in the best interests of the stockholders of Teekay Corporation, which may be contrary to our interests;
- the Chief Executive Officer and Chief Financial Officer and three of the directors of our general partner also serve as executive officers or directors of Teekay Corporation and the general partner of Teekay LNG Partners L.P.;
- our general partner is allowed to take into account the interests of parties other than us, such as Teekay Corporation, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to our unitholders;
- our general partner has limited its liability and reduced its fiduciary duties under the laws of the Marshall Islands, while also restricting the remedies available to our unitholders and unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our general partner, all as set forth in our partnership agreement;
- our general partner determines the amount and timing of our asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and reserves, each of which can affect the amount of cash that is available for distribution to our unitholders;
- in some instances, our general partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make incentive distributions (in each case to affiliates of Teekay Corporation);
- our general partner determines which costs incurred by it and its affiliates are reimbursable by us;
- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf;
- our general partner intends to limit its liability regarding our contractual and other obligations;
- our general partner may exercise its right to call and purchase common units if it and its affiliates own more than 80.0% of our common units;
- our general partner controls the enforcement of obligations owed to us by it and its affiliates; and
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

The fiduciary duties of the officers and directors of our general partner may conflict with those of the officers and directors of Teekay Corporation.

Our general partner's officers and directors have fiduciary duties to manage our business in a manner beneficial to us and our partners. However, the Chief Executive Officer and Chief Financial Officer and all of the non-independent directors of our general partner also serve as executive officers or directors of Teekay Corporation. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Teekay Corporation, on one hand, and us, on the other hand, are in conflict. The resolution of these conflicts may not always be in the best interest of us or our unitholders.

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Tax Risks

In addition to the following risk factors, you should read Item 4E – Taxation of the Partnership, Item 10 – Additional Information – Material U.S. Federal Income Tax Considerations and Item 10 – Additional Information – Non-United States Tax Consequences for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our Common Units.

U.S. tax authorities could treat us as a "passive foreign investment company," which could have adverse U.S. federal income tax consequences to U.S. holders.

A non.-U.S. entity taxed as a corporation for U.S. federal income tax purposes will be treated as a "passive foreign investment company" (or *PFIC*), for U.S. federal income tax purposes if at least 75.0% of its gross income for any taxable year consists of certain types of "passive income," or at least 50.0% of the average value of the entity's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties (other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business). By contrast, income derived from the performance of services does not constitute "passive income."

There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc. v. United States* , 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the U.S. Internal Revenue Code of 1986, as amended (or the *Code*). However, the Internal Revenue Service (or *IRS*) stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS's statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the Code. Nevertheless, based on our current assets and operations, we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that the IRS, or a court of law, will accept our position or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations.

If the IRS were to determine that we are or have been a PFIC for any taxable year, U.S. unitholders will face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those U.S. unitholders make certain elections available under the Code, such unitholders would be liable to pay tax at ordinary income tax rates plus interest upon certain distributions and upon any gain from the disposition of our common units, as if such distribution or gain had been recognized ratably over the unitholder's holding period. Please read Item 10 – Additional Information: Material U.S. Federal Income Tax Considerations – United States Federal Income Taxation of U.S. Holders – Consequences of Possible PFIC Classification.

We may be subject to taxes, which reduces our Cash Available for Distribution to partners.

We or our subsidiaries are subject to tax in certain jurisdictions in which we or our subsidiaries are organized, own assets or have operations, which reduces the amount of our cash available for distribution. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions, the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing the cash available for distribution. For example, authorities in Norway have asserted certain positions that may result in additional tax imposed on our subsidiaries in Norway. We have established reserves in our financial statements that we believe are adequate to cover our liability for any such additional taxes. We cannot assure you, however, that such reserves will be sufficient to cover any additional tax liability that may be imposed on our Norwegian subsidiaries. In addition, changes in our operations or ownership could result in additional tax being imposed on us or on our subsidiaries in jurisdictions in which operations are conducted. For example, Teekay Corporation indirectly owns less than 50.0% of the value of our outstanding units and therefore we believe that we do not satisfy the requirements of the exemption from U.S. taxation under Section 883 of the Code and our U.S. source income is subject to taxation under Section 887 of the Code. The amount of such tax will depend upon the amount of income we earn from voyages into or out of the United States, which is not within our complete control.

Common unitholders may be subject to income tax in one or more non-U.S. countries, including Canada, as a result of owning our common units if, under the laws of any such country, we are considered to be carrying on business there. Such laws may require common unitholders to file a tax return with, and pay taxes to, those countries.

We intend that our affairs and the business of each of our subsidiaries is conducted and operated in a manner that minimizes foreign income taxes or which may be imposed upon you as a result of owning our common units. However, there is a risk that common unitholders will be subject to tax in one or more countries, including Canada, as a result of owning our common units if, under the laws of any such country, we are considered to be carrying on business there. If common unitholders are subject to tax in any such country, common unitholders may be required to file a tax return with, and pay taxes to, that country based on their allocable share of our income. We may be required to reduce distributions to common unitholders on account of any withholding obligations imposed upon us by that country in respect of such allocation to common unitholders. The United States may not allow a tax credit for any foreign income taxes that common unitholders directly or indirectly incur.

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Item 4. Information on the Partnership

A. Overview, History and Development

Overview and History

We are an international provider of marine transportation, oil production and storage services to the offshore oil industry. We were formed as a Marshall Islands limited partnership in August 2006 by Teekay Corporation (NYSE: TK), a leading provider of marine services to the global oil and natural gas industries, to further develop its operations in the offshore market. We seek to leverage the expertise, relationships and reputation of Teekay Corporation and our controlled affiliates to pursue growth opportunities in this market. As of March 1, 2013, Teekay Corporation, which owns and controls our general partner, owned 27.92% of the limited partner interest in us.

Please see Item 5. Operating and Financial Review and Prospects – Management Discussion and Analysis of Financial Condition and Results of Operations – Significant Developments for recent acquisitions and developments.

As of December 31, 2012, our fleet consisted of:

- **Shuttle Tankers.** Our shuttle tanker fleet consisted of 38 vessels (including four newbuildings) that operate under fixed-rate contracts of affreightment, time charters and bareboat charters. Of the 38 shuttle tankers, six were held through 50% owned subsidiaries, three through a 67% owned subsidiary and four are chartered-in by us, with the remainder owned 100% by us. All of these shuttle tankers provide transportation services to energy companies, primarily in the North Sea and Brazil. Subsequent to December 31, 2012 a 1992-built shuttle tanker was sold. The average term of the contracts of affreightment, weighted based on vessel years, is 3.8 years. The time charters and bareboat charters have an average remaining contract term of approximately 4.8 years. As of December 31, 2012, our shuttle tanker fleet, including newbuildings on order, had a total cargo capacity of approximately 4.7 million deadweight tonnes (or dwt), representing more than 51% of the total tonnage of the world shuttle tanker fleet.
- **FPSO Units.** We had three FPSO units, in which we have 100% ownership interests. These vessels operate under operations and charter contracts with major energy companies in the North Sea and Brazil. We use the FPSO units to provide production, processing and storage services to oil companies operating offshore oil field installations. The FPSO contracts have an average remaining term of approximately 4.5 years. As of December 31, 2012, our FPSO units had a total production capacity of approximately 0.1 million barrels of oil per day. We have agreed to acquire the *Voyageur Spirit* , FPSO unit from Teekay Corporation, which is expected to be completed in April 2013.
- **Conventional Tankers.** We had a fleet of seven Aframax conventional crude oil tankers, four of which operate under fixed-rate time charters with Teekay Corporation, one of which has been laid up and sold subsequent to December 31, 2012 and two vessels, which have additional equipment for lightering, operate under fixed-rate bareboat charters with Skaugen PetroTrans. We have 100% ownership in all of these vessels. The average remaining term on these time charter and bareboat charter contracts is approximately 4.2 years. As of December 31, 2012, our conventional tankers had a total cargo capacity of approximately 0.7 million dwt.
- **FSO Units.** We had a fleet of five FSO units, in which we have 100% ownership interests. All of the FSO units operate under fixed-rate contracts, with an average remaining term of approximately 2.8 years. As of December 31, 2012, our FSO units had a total cargo capacity of approximately 0.6 million dwt.

We were formed under the laws of the Republic of The Marshall Islands as Teekay Offshore Partners L.P. and maintain our principal executive headquarters at 4 th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530. Our principal operating office is located at Suite 2000, Bentall 5, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2K2. Our telephone number at such address is (604) 683-3529.

Potential Additional Shuttle Tanker, FSO and FPSO Projects

Please see Item 5. Operating and Financial Review and Prospects – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Potential Additional Shuttle Tanker, FSO and FPSO Projects for possible future vessel acquisitions.

B. Business Overview

Shuttle Tanker Segment

A shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were developed in the North Sea as an alternative to pipelines. The first cargo from an offshore field in the North Sea was shipped in 1977, and the first dynamically-positioned shuttle tankers were introduced in the early 1980s. Shuttle tankers are often described as “floating pipelines” because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor.

Our shuttle tankers are primarily subject to long-term, fixed-rate time-charter contracts for a specific offshore oil field or under contracts of affreightment for various fields. The number of voyages performed under these contracts of affreightment normally depends upon the oil production of each field. Competition for charters is based primarily upon price, availability, the size, technical sophistication, age and condition of the vessel and the reputation of the vessel’s manager. Technical sophistication of the vessel is especially important in harsh operating environments such as the North Sea. Although the size of the world shuttle tanker fleet has been relatively unchanged in recent years, conventional tankers could be converted into shuttle tankers by adding specialized equipment to meet customer requirements. Shuttle tanker demand may also be affected by the possible substitution of sub-sea pipelines to transport oil from offshore production platforms.

As of December 31, 2012, there were approximately 102 vessels in the world shuttle tanker fleet (including 25 newbuildings), the majority of which operate in the North Sea. Shuttle tankers also operate in Africa, Brazil, Canada, Russia and the US Gulf. As of December 31, 2012, we owned 34 shuttle tankers (including four newbuildings) and chartered-in an additional four shuttle tankers. Subsequent to December 31, 2012, we sold a 1992-built owned shuttle tanker, which was laid-up since July 2011. Other shuttle tanker owners include Knutsen NYK Offshore Tankers AS, Transpetro, Viken Shipping and J Lauritzen, which as of December 31, 2012 controlled fleets ranging from 3 to 22 shuttle tankers each. We believe that we have significant competitive advantages in the shuttle tanker market as a result of the quality, type and dimensions of our vessels combined with our market share in the North Sea and Brazil.

The following tables provide additional information about our shuttle tankers as of December 31, 2012:

Vessel	Capacity (dwt)	Built	Ownership	Positioning system	Operating Region	Contract Type (1)	Charterer	Contract End Date
Scott Spirit	106,000	2011	100%	DP2	North Sea	CoA	Chevron, Hess, Marathon Oil, ENI, Draugen Transport, BP, ConocoPhillips, Total, Talisman, Nexen, MTDA and PetroCanada. (5) Majority of volumes are life-of-field	
Grena	148,500	2003	In-chartered (until 2013) (3)	DP2	North Sea	CoA		
Navion Oslo	100,300	2001	100%	DP2	North Sea	CoA		
Navion Hispania	126,200	1999	100%	DP2	North Sea	CoA		
Navion Britannia (2)	124,200	1998	100%	DP2	North Sea	CoA		
Navion Scandia	126,700	1998	100%	DP2	North Sea	CoA		
Aberdeen	87,000	1996	In-chartered (until 2014)	DP	North Sea	CoA		
Navion Europa (2)	130,300	1995	67% (4)	DP	North Sea	CoA		
Randgrid (2)	124,500	1995	67% (4)	DP	North Sea	CoA		
Navion Norvegia (2)	130,600	1995	67% (4)	DP	North Sea	CoA		
Navion Oceania	126,300	1999	100%	DP2	North Sea	CoA		
Stena Natalita	108,000	2001	50% (6)	DP2	North Sea	CoA		
Amundsen Spirit	106,000	2010	100%	DP2	North Sea	Time charter	Statoil (7)	
Peary Spirit	106,000	2011	100%	DP2	North Sea	Time charter	Statoil (7)	
Nansen Spirit	106,000	2010	100%	DP2	North Sea	Time charter	Statoil (7)	
Sallie Knutsen	153,600	1999	In-chartered (until 2015)	DP2	North Sea	Time charter	Statoil (7)	
Karen Knutsen	153,600	1999	In-chartered (until 2013)	DP2	North Sea	Time charter	Statoil (7)	
Stena Sirita	126,900	1999	50% (6)	DP2	North Sea	Time charter	ExxonMobil (8)	September 2013
Stena Alexita	127,000	1998	50% (6)	DP2	North Sea	Time charter	ExxonMobil	March 2014
Navion Anglia	126,300	1999	100%	DP2	Brazil	Time charter	Petrobras	June 2016
Navion Marita	103,900	1999	100%	DP	Brazil	Time charter	Petrobras	July 2013
Navion Svenita	106,500	1997	100%	DP	Brazil	Time charter	Petrobras	December 2014
Navion Gothenburg	152,200	2006	50% (6)	DP2	Brazil	Bareboat	Petrobras (9)	July 2020
Nordic Brasilia	151,300	2004	100%	DP	Brazil	Bareboat	Petrobras (9)	July 2017
Nordic Rio	151,300	2004	50% (6)	DP	Brazil	Bareboat	Petrobras (9)	July 2017
Navion Stavanger	148,700	2003	100%	DP2	Brazil	Bareboat	Petrobras (9)	July 2019
Petroatlantic	92,900	2003	100%	DP2	North Sea	Bareboat	Teekay Corporation	March 2016
Petronordic	92,900	2002	100%	DP2	North Sea	Bareboat	Teekay Corporation	March 2016
Nordic Spirit	151,300	2001	100%	DP	Brazil	Bareboat	Petrobras (9)	April 2018
Stena Spirit	151,300	2001	50% (6)	DP	Brazil	Bareboat	Petrobras (9)	July 2018
Navion Bergen	105,600	2000	100%	DP2	Brazil	Bareboat	Petrobras (9)	April 2020
Navion Clipper (10)	78,200	1993	100%	DP		Spot		
Navion Torinita (11)	106,800	1992	100%	DP2		Lay-up		
Basker Spirit (12)	97,000	1992	100%	DP		Lay-up		
Total capacity	4,133,900							

(1) "CoA" refers to contracts of affreightment.
(2) The vessel is capable of loading from a submerged turret loading buoy.
(3) We have options to extend the time charter or purchase the vessel.
(4) Owned through a 67% owned subsidiary. The parties share in the profits and losses of the subsidiary in proportion to each party's relative capital contributions.
(5) Not all of the contracts of affreightment customers utilize every ship in the contract of affreightment fleet.
(6) Owned through a 50% owned subsidiary. The parties share in the profits and losses of the subsidiary in proportion to each party's relative capital contributions.

(7) Under the terms of a master agreement with Statoil, the vessels are chartered under individual fixed-rate annually renewable time-charter contracts. The number of vessels may be adjusted annually based on the requirements of the fields serviced. It is expected that between one and five vessels will be required by Statoil annually. We expect four vessels will be required by Statoil by mid-2013. The vessels currently on time charter to Statoil may be replaced by vessels currently servicing contracts of affreightment or other time-charter contracts.
(8) Charterer has an option to extend the time charter.
(9) Charterer has the right to purchase the vessel at end of the bareboat charter.
(10) The vessel operated under the conventional spot tanker market upon its redelivery to us in November 2012 after completing its time-charter contact. In January 2013, we signed a letter of intent with Salamander Energy plc to supply a FSO unit in Asia for a firm charter period of ten years commencing in mid-2014. We intend to convert this vessel into an FSO for an estimated cost of approximately $50 million. We are in the process of finalizing the contract terms with the charter. Subsequent to December 31, 2012 we laid up the vessel.
(11) The vessel was 20 years old in 2012 and could no longer trade as a shuttle tanker in the North Sea and Brazil. The vessel is in lay-up following its redelivery to us in April 2012.
(12) The vessel was laid-up since July 2011 and subsequently sold in January 2013.

On the Norwegian continental shelf, regulations have been imposed on the operators of offshore fields related to vaporized crude oil that is formed and emitted during loading operations and which is commonly referred to as “VOC.” To assist the oil companies in their efforts to meet the regulations on VOC emissions from shuttle tankers, we and Teekay Corporation have played an active role in establishing a unique co-operation among all of the approximately 29 owners of offshore fields in the Norwegian sector. The purpose of the co-operation is to implement VOC recovery systems on selected shuttle tankers and to ensure a high degree of VOC recovery at a minimum cost followed by joint reporting to the authorities. Currently, there are 19 VOC plants installed aboard shuttle tankers that operate on the Norwegian continental shelf, 14 of which are operated or owned by us. The oil companies that participate in the co-operation have engaged us to undertake the day-to-day administration, technical follow-up and handling of payments through a dedicated clearing house function.

During 2012, approximately 57% of our consolidated net revenues from continuing operations were earned by the vessels in the shuttle tanker segment, compared to approximately 62% in 2011 and 63% in 2010. Please read Item 5 – Operating and Financial Review and Prospects: Results of Operations.

Historically, the utilization of shuttle tankers in the North Sea is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to our vessels and to the offshore oil platforms. Downtime for repairs and maintenance generally reduces oil production and, thus, transportation requirements.

FPSO Segment

FPSO units are offshore production facilities that are ship-shaped or cylindrical-shaped and store processed crude oil in tanks located in the hull of the vessel. FPSO units are typically used as production facilities to develop marginal oil fields or deepwater areas remote from existing pipeline infrastructure. Of four major types of floating production systems, FPSO units are the most common type. Typically, the other types of floating production systems do not have significant storage and need to be connected into a pipeline system or use an FSO unit for storage. FPSO units are less weight-sensitive than other types of floating production systems and their extensive deck area provides flexibility in process plant layouts. In addition, the ability to utilize surplus or aging tanker hulls for conversion to an FPSO unit provides a relatively inexpensive solution compared to the new construction of other floating production systems. A majority of the cost of an FPSO comes from its top-side production equipment and thus FPSO units are expensive relative to conventional tankers. An FPSO unit carries on board all the necessary production and processing facilities normally associated with a fixed production platform. As the name suggests, FPSOs are not fixed permanently to the seabed but are designed to be moored at one location for long periods of time. In a typical FPSO unit installation, the untreated wellstream is brought to the surface via subsea equipment on the sea floor that is connected to the FPSO unit by flexible flow lines called risers. The risers carry oil, gas and water from the ocean floor to the vessel, which processes it on board. The resulting crude oil is stored in the hull of the vessel and subsequently transferred to tankers either via a buoy or tandem loading system for transport to shore.

Traditionally for large field developments, the major oil companies have owned and operated new, custom-built FPSO units. FPSO units for smaller fields have generally been provided by independent FPSO contractors under life-of-field production contracts, where the contract’s duration is for the useful life of the oil field. FPSO units have been used to develop offshore fields around the world since the late 1970s. As of December, 2012, there were approximately 165 FPSO units operating and 44 FPSO units on order in the world fleet. At December 31, 2012, we owned three FPSO units. Most independent FPSO contractors have backgrounds in marine energy transportation, oil field services or oil field engineering and construction. The major independent FPSO contractors are SBM Offshore N.V., BW Offshore, MODEC, Bluewater and Bumi Armada.

The following table provides additional information about our FPSO units as of December 31, 2012:

Vessel	Production Capacity (bbl/day)	Built	Ownership	Field name and location	Charterer	Contract End Date
Petrojarl Cidade de Rio das Ostras (1)	25,000	2008	100%	Aruana, Brazil	Petrobras	November 2017
Piranema Spirit (2)	30,000	2007	100%	Piranema, Brazil	Petrobras	March 2018
Petrojarl Varg (2)	57,000	1998	100%	Varg, Norway	Talisman Energy	June 2016
Total capacity	112,000					

(1) The *Petrojarl Cidade de Rio das Ostras* was converted to an FPSO unit in 2008. The original hull was built in 1981.
(2) The charterer has options to extend the service contract.

During 2012, approximately 29% of our consolidated net revenues from continuing operations were earned by our FPSO units, compared to approximately 23% in 2011 and 21% in 2010 (including the results of the Dropdown Predecessor). Please read Item 5 – Operating and Financial Review and Prospects: Results of Operations.

Conventional Tanker Segment

Conventional oil tankers are used primarily for transcontinental seaborne transportation of oil. Conventional oil tankers are operated by both major oil companies (including state-owned companies) that generally operate captive fleets, and independent operators that charter out their vessels for voyage or time charter use. Most conventional oil tankers controlled by independent fleet operators are hired for one or a few voyages at a time at fluctuating market rates based on the existing tanker supply and demand. These charter rates are extremely sensitive to this balance of supply and demand, and small changes in tanker utilization have historically led to relatively large changes in short-term rates. Long-term, fixed-rate charters for crude oil transportation, such as those applicable to the majority of our conventional tanker fleet, are less typical in the industry. As used in this discussion, “conventional” oil tankers exclude those vessels that can carry dry bulk and ore, tankers that currently are used for storage purposes and shuttle tankers.

Oil tanker demand is a function of several factors, including the location of oil production, refining and consumption and world oil demand and supply. Tanker demand is based on the amount of crude oil transported in tankers and the distance over which the oil is transported. The distance over which oil is transported is determined by seaborne trading and distribution patterns, which are principally influenced by the relative advantages of the various sources of production and locations of consumption.

The majority of crude oil tankers ranges in size from approximately 80,000 to approximately 320,000 dwt. Aframax tankers are the mid-size of the various primary oil tanker types, typically sized from 80,000 to 120,000 dwt. As of December 31, 2012, the world Aframax tanker fleet consisted of approximately 887 vessels, of which 645 crude tankers and 242 coated tankers are termed conventional tankers. As of December 31, 2012, there were approximately 49 conventional Aframax newbuildings on order for delivery through 2015. Delivery of a vessel typically occurs within two to three years after ordering.

As of December 31, 2012, our Aframax conventional crude oil tankers had an average age of approximately 11.3 years, compared to the average age of 8.3 years for the world Aframax conventional tanker fleet. New Aframax tankers generally are expected to have a lifespan of approximately 25 to 30 years, based on estimated hull fatigue life. However, United States and international regulations require double-hulled vessels to be phased out after 25 years. All of our Aframax tankers are double-hulled.

The shuttle tankers in our contract of affreightment fleet may operate in the conventional spot market during downtime or maintenance periods for oil field installations or otherwise, which provides greater capacity utilization for the fleet.

The following table provides additional information about our conventional tankers as of December 31, 2012:

Vessel	Capacity (dwt)	Built	Ownership	Contract Type	Charterer	Contract End Date
SPT Explorer (1)	106,000	2008	100%	Bareboat	Skaugen Petro Trans	January 2018
SPT Navigator (1)	106,000	2008	100%	Bareboat	Skaugen Petro Trans	March 2018
Kilimanjaro Spirit (2)	115,000	2004	100%	Time charter	Teekay Corporation	November 2018
Fuji Spirit (2)	106,300	2003	100%	Time charter	Teekay Corporation	November 2018
Poul Spirit (2)	105,300	1995	100%	Time charter	Teekay Corporation	September 2014
Gotland Spirit (2)	95,300	1995	100%	Time charter	Teekay Corporation	July 2014
Leyte Spirit (3)	98,700	1992	100%	Lay-up		
Total capacity	732,600					

(1) Charterer has options to extend each bareboat charter for periods of two years, two years and one year for a total of five years after the initial term.
(2) Charterer has options to extend each time charter on an annual basis for a total of five years after the initial term. Charterer also has the right to purchase the vessel beginning on the third anniversary of the contract at a specified price.
(3) Vessel was laid-up since mid-2012 and subsequently sold in January 2013.

During 2012, approximately 6% of our consolidated net revenues from continuing operations were earned by the vessels in the conventional tanker segment, compared to approximately 7% in 2011 and 6% in 2010. All earnings from discontinued operations were from the conventional tanker segment. Please read Item 5 – Operating and Financial Review and Prospects: Results of Operations.

FSO Segment

FSO units provide on-site storage for oil field installations that have no storage facilities or that require supplemental storage. An FSO unit is generally used in combination with a jacked-up fixed production system, floating production systems that do not have sufficient storage facilities or as supplemental storage for fixed platform systems, which generally have some on-board storage capacity. An FSO unit is usually of similar design to a conventional tanker, but has specialized loading and off-take systems required by field operators or regulators. FSO units are moored to the seabed at a safe distance from a field installation and receive the cargo from the production facility via a dedicated loading system. An FSO unit is also equipped with an export system that transfers cargo to shuttle or conventional tankers. Depending on the selected mooring arrangement and where they are located, FSO units may or may not have any propulsion systems. FSO units are usually conversions of older single-hull conventional oil tankers. These conversions, which include installation of a loading and off-take system and hull refurbishment, can generally extend the lifespan of a vessel as an FSO unit by up to 20 years over the normal conventional tanker lifespan of 25 years.

Our FSO units are generally placed on long-term, fixed-rate time charters or bareboat charters as an integrated part of the field development plan, which provides more stable cash flow to us.

As of December 31, 2012, there were approximately 101 FSO units operating and nine FSO units on order in the world fleet, and we had five FSO units. The major markets for FSO units are Asia, the Middle East, West Africa, South America and the North Sea. Our primary competitors in the FSO market are conventional tanker owners, who have access to tankers available for conversion, and oil field services companies and oil field engineering and construction companies who compete in the floating production system market. Competition in the FSO market is primarily based on price, expertise in FSO operations, management of FSO conversions and relationships with shipyards, as well as the ability to access vessels for conversion that meet customer specifications.

The following table provides additional information about our FSO units as of December 31, 2012:

Vessel	Capacity (dwt)	Built	Ownership	Field name and location	Contract Type	Charterer	Contract End Date
Navion Saga (1)	149,000	1991	100%	Volve, Norway	Time charter	Statoil ASA	December 2015
Pattani Spirit (1)	113,800	1988	100%	Platong, Thailand	Bareboat	Teekay Corporation	April 2014
Dampier Spirit (1)	106,700	1987	100%	Stag, Australia	Time charter	Apache Energy	August 2014
Falcon Spirit (1)	124,500	1986	100%	Al Rayyan, Qatar	Time charter	Occidental Qatar Energy	May 2017
Apollo Spirit (2)	129,000	1978	89%	Banff, U.K.	Bareboat	Teekay Corporation	June 2016
Total capacity	623,000						

(1) Charterer has option to extend the time charter after the initial fixed period.
(2) Charterer is required to charter the vessel for as long as a specified FPSO unit, the *Petrojarl Banff* , produces the Banff field in the North Sea, which is expected to remain under contract until the end of 2018.

During 2012, approximately 8% of our consolidated net revenues from continuing operations were earned by the vessels in the FSO segment, compared to 8% in 2011 and 10% in 2010. Please read Item 5 – Operating and Financial Review and Prospects: Results of Operations.

Business Strategies

Our primary business objective is to increase distributions per unit by executing the following strategies:

- **Expand global operations in high growth regions.** We seek to expand our shuttle tanker, FPSO unit and FSO unit operations into growing offshore markets such as Brazil. In addition, we intend to pursue offshore oil production, storage and transportation opportunities in existing markets such as the North Sea.
- **Pursue further opportunities in the offshore sector.** We believe that Teekay Corporation's ownership of Teekay Petrojarl, a leading operator in the FPSO sector, will enable us to competitively pursue additional FPSO projects anywhere in the world by combining Teekay Petrojarl's engineering and operational expertise with Teekay Corporation's global marketing organization and extensive customer and shipyard relationships. We believe that Teekay Corporation's (a) 2011 joint venture agreement with Odebretcht Oil & Gas S.A. (a member of the Odebretcht group) to jointly pursue FPSO projects in Brazil and (b) arrangements with Sevan and Remora AS by which Teekay Corporation will have access to offshore production projects developed by both companies in the future, will also expand our offshore opportunities.
- **Acquire or construct additional vessels to serve under long-term, fixed-rate contracts.** We intend to continue acquiring and constructing shuttle tankers, FSO units and FPSO units with long-term contracts, rather than ordering vessels on a speculative basis. We believe this approach facilitates the financing of new vessels based on their anticipated future revenues and ensures that new vessels will be employed upon acquisition, which should provide stable cash flows.
- **Provide superior customer service by maintaining high reliability, safety, environmental and quality standards.** Energy companies seek transportation partners that have a reputation for high reliability, safety, environmental and quality standards. We intend to leverage Teekay Corporation's operational expertise and customer relationships to further expand a sustainable competitive advantage with consistent delivery of superior customer service.

Customers

We provide marine transportation and storage services to energy and oil service companies or their affiliates. Our most important customer measured by annual revenue excluding Teekay Corporation, is Petrobras Transporte S.A, which is Brazil's largest company and the third largest energy company in the world.

Petrobras Transporte S.A., Statoil ASA, Talisman Energy Inc., and Teekay Corporation accounted for approximately 28%, 21%, 13% and 10%, and 24%, 24%, 13% and 11% respectively, of our consolidated revenues from continuing operations during 2012 and 2011, respectively. Statoil ASA, Petrobras Transporte S.A., Talisman Energy Inc., and Teekay Corporation accounted for approximately 28%, 21%, 13% and 10%, respectively, of our consolidated revenues from continuing operations during 2010.

Safety, Management of Ship Operations and Administration

Safety and environmental compliance are our top operational priorities. We operate our vessels in a manner intended to protect the safety and health of our employees, the general public and the environment. We seek to manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. In 2008, we introduced the Quality Assurance and Training Officers Program to conduct rigorous internal audits of our processes and provide our seafarers with on-board training. In 2007, we introduced a behavior-based safety program called "Safety in Action" to improve the safety culture in our fleet. We are also committed to reducing our emissions and waste generation. In 2010, Teekay Corporation introduced the "Operational Leadership" campaign to reinforce commitment to personal and operational safety.

Key performance indicators facilitate regular monitoring of our operational performance. Targets are set on an annual basis to drive continuous improvement, and indicators are reviewed monthly to determine if remedial action is necessary to reach the targets.

We, through certain of our subsidiaries, assist our operating subsidiaries in managing their ship operations. All vessels are operated under our comprehensive and integrated Safety Management System that complies with the International Safety Management Code (or *ISM Code*), the International Standards Organization's (or *ISO*) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, and Occupational Health and Safety Assessment Series (or *OHSAS*) 18001. The management system is certified by Det Norske Veritas (or *DNV*), the Norwegian classification society. It has also been separately approved by the Australian and Spanish flag administrations. Although certification is valid for five years, compliance with the above mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits as well as external verification audits by DNV and applicable flag states.

We provide, through certain of our subsidiaries, expertise in various functions critical to the operations of our operating subsidiaries. We believe this arrangement affords a safe, efficient and cost-effective operation. Our subsidiaries also provide to us access to human resources, financial and other administrative functions pursuant to administrative services agreements.

Ship management services are provided by subsidiaries of Teekay Corporation, located in various offices around the world. These include critical ship management functions such as:

- vessel maintenance (including repairs and dry docking) and certification;
- crewing by competent seafarers;
- procurement of stores, bunkers and spare parts;
- management of emergencies and incidents;
- supervision of shipyard and projects during new-building and conversions;
- insurance; and
- financial management services.

These functions are supported by on-board and on-shore systems for maintenance, inventory, purchasing and budget management.

In addition, Teekay Corporation's day-to-day focus on cost control is applied to our operations. In 2003, Teekay Corporation and two other shipping companies established a purchasing alliance, Teekay Bergesen Worldwide, which leverages the purchasing power of the combined fleets, mainly in such commodity areas as lube oils, paints and other chemicals. Through our arrangements with Teekay Corporation, we benefit from this purchasing alliance.

We believe that the generally uniform design of some of our existing and newbuilding vessels and the adoption of common equipment standards provides operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair, and spare parts ordering.

Risk of Loss, Insurance and Risk Management

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters, death or injury of persons and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, the transportation of crude oil and petroleum products is subject to the risk of spills and to business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. The occurrence of any of these events may result in loss of revenues or increased costs.

We carry hull and machinery (marine and war risks) and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of our business. Hull and machinery insurance covers loss of or damage to a vessel due to marine perils such as collisions, grounding and weather. Protection and indemnity insurance indemnifies against other liabilities incurred while operating vessels, including injury to the crew, third parties, cargo loss and pollution. The current -maximum amount of our coverage for pollution is $1 billion per vessel per incident. We also carry insurance policies covering war risks (including piracy and terrorism).

Under bareboat charters, the customer is responsible to insure the vessel. We believe that current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution coverage. However, we cannot assure that all covered risks are adequately insured against, that any particular claim will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. More stringent environmental regulations at times in the past have resulted in increased costs for, and may result in the lack of availability of, insurance against the risks of environmental damage or pollution. Substantially all of our vessels are not insured against loss of revenues resulting from vessel off-hire time, based on the cost of this insurance compared to our off-hire experience.

In Norway, the Norwegian Pollution Control Authority requires the installation of VOC emissions reduction units on most shuttle tankers serving the Norwegian continental shelf. Customers bear the cost to install and operate the VOC equipment on board the shuttle tankers.

We have achieved certification under the standards reflected in ISO 9001 for quality assurance, ISO 14001 for environment management systems, OHSAS 18001, and the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis.

Flag, Classification, Audits and Inspections

Our vessels are registered with reputable flag states, and the hull and machinery of all of our vessels have been "Classed" by one of the major classification societies and members of IACS (International Association of Classification Societies Ltd *):* DNV, Lloyd's Register of Shipping or American Bureau of Shipping.

The applicable classification society certifies that the vessel's design and build conforms to the applicable class rules and meets the requirements of the applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a signatory. The classification society also verifies throughout the vessel's life that it continues to be maintained in accordance with those rules. In order to validate this, the vessels are surveyed by the classification society in accordance with the classification society rules, which in the case of our vessels follows a comprehensive five year special survey cycle, renewed every fifth year. During each five-year period the vessel undergoes annual and intermediate surveys, the scrutiny and intensity of which is primarily dictated by the age of the vessel. As most of our vessels are modern and we have enhanced the resiliency of the underwater coatings of each vessel hull and marked the hull to facilitate underwater inspections by divers, their underwater areas are inspected in a dry dock at five year intervals. In-water inspection is carried out during the second or third annual inspection (i.e. during an intermediate survey).

In addition to Class surveys, the vessel's flag state also verifies the condition of the vessel during annual flag state inspections, either independently or by additional authorization to Class. Also, Port State Authorities of a vessel's port of call are authorized under international conventions to undertake regular and spot checks of vessels visiting their jurisdiction.

Processes followed on board are audited by either the flag state or the classification society acting on behalf of a flag state to ensure that they meet the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (or *ISM Code*). DNV typically carries out this task. We also follow an internal process of internal audits undertaken at each office and vessel annually.

We follow a comprehensive inspections scheme supported by our sea staff, shore-based operational and technical specialists and members of our QATO program. We carry out regular inspections which helps ensure that:

- our vessels and operations adhere to our operating standards;
- the structural integrity of the vessel is being maintained;
- machinery and equipment is being maintained to give reliable service;
- we are optimizing performance in terms of speed and fuel consumption; and
- the vessel's appearance will support our brand and meet customer expectations.

Our customers often carry out inspections under the Ship inspection Report Program (SiRe Program), which is a significant safety initiative introduced by Oil Companies International Marine Forum (OCIMF) to specifically address concerns about sub-standard vessels. The inspection results permit charterers to screen a vessel to ensure that it meets their general and specific risk-based shipping requirements.

We believe that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will generally lead to greater scrutiny, inspection and safety requirements on all vessels in the oil tanker markets and will accelerate the scrapping or phasing out of older vessels throughout these markets.

Overall we believe that our relatively new, well-maintained and high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

Regulations

General

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our

vessels. Additional conventions, laws, and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own will depend on a number of factors, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

International Maritime Organization (or IMO)

The IMO is the United Nations' agency for maritime safety. IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates. Under IMO regulations and subject to limited exceptions, a tanker must be of double-hull construction, be of a mid-deck design with double-side construction or be of another approved design ensuring the same level of protection against oil pollution. All of our tankers are double-hulled.

Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (or *CLC*). Under this convention, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g. crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner's actual fault or when the spill is caused by the owner's intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

IMO regulations also include the International Convention for Safety of Life at Sea (or *SOLAS*), including amendments to SOLAS implementing the International Ship and Port Facility Security Code (or *ISPS*), the ISM Code, and the International Convention on Load Lines of 1966. The IMO Marine Safety Committee has also published guidelines for vessels with dynamic positioning (*DP*) systems, which would apply to shuttle tankers and DP-assisted FSO units and FPSO units. SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. Flag states which have ratified the convention and the treaty generally employ the classification societies, which have incorporated SOLAS requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, ISPS and the specific requirements for shuttle tankers, FSO units and FPSO units under the NPD (Norway) and HSE (United Kingdom) regulations, may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to or detention in some ports. For example, the U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and European Union ports.

The ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the shipowner's development and maintenance of an extensive safety management system. Each of the existing vessels in our fleet is currently ISM Code-certified, and we expect to obtain safety management certificates for each newbuilding vessel upon delivery.

Annex VI to the IMO's International Convention for the Prevention of Pollution from Ships (or *Annex VI*) sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits emissions of ozone depleting substances, emissions of volatile compounds from cargo tanks and the incineration of specific substances. Annex VI also includes a world-wide cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions.

The IMO has issued guidance regarding protecting against acts of piracy off the coast of Somalia. We comply with these guidelines.

In addition, the IMO has proposed that all tankers of the size we operate that are built starting in 2012 contain ballast water treatment systems, and that all other similarly sized tankers install treatment systems by their first intermediate or renewal survey after 2016. This convention has not yet been ratified, but when it becomes effective, we estimate that the installation of ballast water treatment systems on our tankers may cost between $2 million and $3 million per vessel.

European Union (or EU)

Like the IMO, the EU has adopted regulations phasing out single-hull tankers. All of our tankers are double-hulled.

The EU has also adopted legislation (directive 2009/16/Econ Port State Control) that: bans from European waters manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities, in the preceding two years); creates obligations on the part of EU member port states to inspect at least 24% of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. The EU is also considering the adoption of criminal sanctions for certain pollution events, including improper cleaning of tanks.

The EU has adopted regulations requiring the use of low sulfur fuel. Currently, vessels are required to burn fuel with a sulfur content not exceeding 1%. Beginning January 1, 2015, vessels are required to burn fuel with sulfur content not exceeding 0.1% while within EU member states’ territorial seas, exclusive economic zones and pollution control zones that are included in SOX Emission Control Areas. Other jurisdictions have also adopted regulations requiring the use of low sulfur fuel. The California Air Resources Board will require vessels to burn fuel with 0.1% sulfur content or less within 24 nautical miles of California as of January 1, 2014. IMO regulations require that as of January 1, 2015, all vessels operating within Emissions Control Areas worldwide must comply with 0.1% sulfur requirements. Currently, the only grade of fuel meeting 0.1% sulfur content requirement is low sulfur marine gas oil (or *LSMGO*). Certain modifications were necessary in order to optimize operation on LSMGO of equipment originally designed to operate on Heavy Fuel Oil (or HFO). In addition, LSMGO is more expensive than HFO and this will impact the costs of operations. However, for vessels employed on fixed term business, all fuel costs, including any increases, are borne by the charterer. Our exposure to increased cost is in our spot trading vessels, although our competitors bear a similar cost increase as this is a regulatory item applicable to all vessels. All required vessels in our fleet trading to and within regulated low sulfur areas are able to comply with fuel requirements.

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North Sea and Brazil

Our shuttle tankers primarily operate in the North Sea and Brazil.

In addition to the regulations imposed by the IMO and EU, countries having jurisdiction over North Sea areas impose regulatory requirements in connection with operations in those areas, including the United Kingdom and Norway. These regulatory requirements, together with additional requirements imposed by operators in North Sea oil fields, require that we make further expenditures for sophisticated equipment, reporting and redundancy systems on the shuttle tankers and for the training of seagoing staff. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in the North Sea.

In Norway, the Norwegian Pollution Control Authority requires the installation of VOC (or *volatile organic compound*) emissions reduction units on most shuttle tankers serving the Norwegian continental shelf. Customers bear the cost to install and operate the VOC equipment on board the shuttle tankers.

In addition to the regulations imposed by the IMO, Brazil imposes regulatory requirements in connection with operations in its territory, including specific requirements for the operations of vessels flagged in countries other than Brazil. Under Brazil's environmental laws, owners and operators of vessels are strictly liable for damages to the environment. Other penalties for non-compliance with environmental laws include fines, loss of tax incentives and suspension of activities. Operators such as Petrobras may impose additional requirements, such as compliance with specific health, safety and environmental standards or the use of local labor. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in Brazil.

United States

The United States has enacted an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 (or *OPA 90*) and the Comprehensive Environmental Response, Compensation and Liability Act (or *CERCLA*). OPA 90 affects all owners, bareboat charterers, and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States. CERCLA applies to the discharge of "hazardous substances" rather than "oil" and imposes strict joint and several liability upon the owners, operators or bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances. We believe that petroleum products should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on vessels might fall within its scope.

Under OPA 90, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and cleanup costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

- natural resources damages and the related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties in an amount it periodically updates. The liability limits do not apply if the incident was proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. Liability under CERCLA is also subject to limits unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations. We currently maintain for each of our vessel's pollution liability coverage in the maximum coverage amount of $1 billion per incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

Under OPA 90, with limited exceptions, all newly built or converted tankers delivered after January 1, 1994 and operating in U.S. waters must be double-hulled. All of our tankers are double-hulled.

OPA 90 also requires owners and operators of vessels to establish and maintain with the United States Coast Guard (or *Coast Guard*) evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The Coast Guard has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to approval by the Coast Guard. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the Coast Guard regulations by using self-insurance for certain vessels and obtaining financial guaranties from a third party for the remaining vessels. If other vessels in our fleet trade into the United States in the future, we expect to obtain guaranties from third-party insurers.

OPA 90 and CERCLA permit individual U.S. states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, such as California, Washington and Alaska require state-specific evidence of financial responsibility and vessel response plans. We intend to comply with all applicable state regulations in the ports where our vessels call.

Owners or operators of vessels, including tankers operating in U.S. waters are required to file vessel response plans with the Coast Guard, and their tankers are required to operate in compliance with their Coast Guard approved plans. Such response plans must, among other things:

- address a "worst case" scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a "worst case discharge";
- describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.

We have filed vessel response plans with the Coast Guard and have received its approval of such plans. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

OPA 90 and CERCLA do not preclude claimants from seeking damages resulting from the discharge of oil and hazardous substances under other applicable law, including maritime tort law. The application of this doctrine varies by jurisdiction.

The United States Clean Water Act also prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above.

Our vessels that discharge certain effluents, including ballast water, in U.S. waters must obtain a Clean Water Act permit from the Environmental Protection Agency (or EPA) titled the "Vessel General Permit" and comply with a range of effluent limitations, best management practices, reporting, inspections and other requirements. The current Vessel General Permit was issued in December 2008 and expires on December 19, 2013. A new Vessel General Permit was issued in March 2013 and will become effective on December 19, 2013. In addition to the ballast water best management practices required under the 2008 Vessel General Permit, the 2013 Vessel General Permit contains numeric technology-based ballast water effluent limitations that will apply to certain commercial vessels with ballast water tanks. For certain existing vessels, the EPA has adopted a staggered implementation schedule to require vessels to meet the ballast water effluent limitations by the first drydocking after January 1, 2014 or January 1, 2016, depending on the vessel size. Vessels that are constructed after December 1, 2013 are subject to the ballast water numeric effluent limitations immediately upon the effective date of the 2013 Vessel General Permit.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (or the *Kyoto Protocol*) entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding, but is intended to pave the way for a comprehensive, international treaty on climate change. The IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. The EU also has indicated that it intends to propose an expansion of an existing EU emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries in the EU may impose additional requirements. In the United States, the EPA issued an "endangerment finding" regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. In addition, climate change initiatives are being considered in the United States Congress and by individual states. Any passage of new climate control legislation or other regulatory initiatives by the IMO, the EU, the United States or other countries or states where we operate that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business that we cannot predict with certainty at this time.

Vessel Security

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and Maritime Transportation Security Act of 2002 (U.S. specific requirements) and regularly exercise these plans to ensure efficient use and familiarity by all involved.

C. Organizational Structure

Our sole general partner is Teekay Offshore GP L.L.C., which is a wholly-owned indirect subsidiary of Teekay Corporation. Teekay Corporation also controls its public subsidiaries Teekay LNG Partners L.P. (NYSE: TGP) and Teekay Tankers Ltd. (NYSE: TNK).

Please read Exhibit 8.1 to this Annual Report for a list of our significant subsidiaries as of December 31, 2012.

D. Properties

Other than our vessels and VOC plants mentioned above, we do not have any material property.

E. Taxation of the Partnership

United States Taxation

The following discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (or the *Code*), legislative history, applicable U.S. Treasury Regulations (or *Treasury Regulations*), judicial authority and administrative interpretations, all as in effecton the date of this Annual Report, and which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

Election to be Taxed as a Corporation. We have elected to be taxed as a corporation for U.S. federal income tax purposes. As such, we are subject to U.S. federal income tax on our income to the extent it is from U.S. sources or otherwise is effectively connected with the conduct of a trade or business in the United States as discussed below.

Taxation of Operating Income. A significant portion of our gross income will be attributable to the transportation of crude oil and related products. For this purpose, gross income attributable to transportation (or *Transportation Income*) includes income derived from, or in connection with, the use (or hiring or leasing for use) of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes both time charter and bareboat charter income.

Transportation Income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States (or *U.S. Source International Transportation Income*) will be considered to be 50.0% derived from sources within the United States. Transportation Income attributable to transportation that both begins and ends in the United States (or *U.S. Source Domestic Transportation Income*) will be considered to be 100.0% derived from sources within the United States. Transportation Income attributable to transportation exclusively between non-U.S. destinations will be considered to be 100.0% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally will not be subject to U.S. federal income tax.

Based on our current operations, a substantial portion of our Transportation Income is from sources outside the United States and not subject to U.S. federal income tax. In addition, we believe that we have not earned any U.S. Source Domestic Transportation Income, and we except that we will not earn any such income in future years. However, certain of our activities give rise to U.S. Source International Transportation Income. Unless the exemption from U.S. taxation under Section 883 of the Code (or the *Section 883 Exemption*) applies, our U.S. Source International Transportation Income generally will be subject to U.S. federal income taxation under either the net basis tax and the branch profits tax or the 4.0% gross basis tax, all of which are discussed below.

The Section 883 Exemption. In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (or the *Section 883 Regulations*), it will not be subject to the net basis and branch profits taxes or 4.0% gross basis tax described below on its U.S. Source International Transportation Income. The Section 883 Exemption only applies to U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

A non-U.S. corporation will qualify for the Section 883 Exemption if, among other things, it is organized in a jurisdiction outside the United States that grants an equivalent exemption from tax to corporations organized in the United States (or an *Equivalent Exemption*), it meets one of three ownership tests described in the Section 883 Regulations (or the *Ownership Test*), and it meets certain substantiation, reporting and other requirements (or the *Substantiation Requirements*).

We are organized under the laws of the Republic of The Marshall Islands. The U.S. Treasury Department has recognized the Republic of The Marshall Islands as a jurisdiction that grants an Equivalent Exemption. We also believe that we will be able to satisfy the Substantiation Requirements. However, we do not believe that we meet the Ownership Test and therefore we will not qualify for the Section 883 Exemption and our U.S. Source International Transportation Income will not be exempt from U.S. federal income taxation.

The Net Basis Tax and Branch Profits Tax. If we earn U.S. Source International Transportation Income and the Section 883 Exemption does not apply, such income may be treated as effectively connected with the conduct of a trade or business in the United States (or *Effectively Connected Income*) if we have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of income derived from bareboat charters, is attributable to a fixed place of business in the United States. Based on our current operations, none of our potential U.S. Source International Transportation Income is attributable to regularly scheduled transportation or is derived from bareboat charters attributable to a fixed place of business in the United States. As a result, we do not anticipate that any of our U.S. Source International Transportation Income will be treated as Effectively Connected Income. However, there is no assurance that we will not earn income pursuant to regularly scheduled transportation or bareboat charters attributable to a fixed place of business in the United States in the future, which would result in such income being treated as Effectively Connected Income. U.S. Source Domestic Transportation Income generally is treated as Effectively Connected Income. However, none of our income has been, and we currently do not anticipate that any of our income will be, U.S. Source Domestic Transportation Income.

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the highest statutory rate currently is 35.0%). In addition, if we earn income that is treated as Effectively Connected Income, a 30.0% branch profits tax imposed under Section 884 of the Code generally would apply to such income, and a branch interest tax could be imposed on certain interest paid or deemed paid by us.

On the sale of a vessel that has produced Effectively Connected Income, we could be subject to the net basis corporate income tax and to the 30.0% branch profits tax with respect to our gain not in excess of certain prior deductions for depreciation that reduced Effectively Connected

Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles.

The 4.0 % Gross Basis Tax. For any year for which the Section 883 Exemption does not apply and the net basis tax and branch profits tax does not apply, we will be subject to a 4.0% U.S. federal income tax on U.S. source portion of our gross U.S. Source International Transportation Income, without benefit of deductions. For 2013, we estimate that the U.S. federal income tax on such U.S. Source International Transportation Income will be approximately $300,000 based on the amount of U.S. Source International Transportation Income we earned for 2012. The amount of such tax for which we are liable for any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

Marshall Islands Taxation

Because we and our controlled affiliates do not, and we do not expect that we and our controlled affiliates will, conduct business or operations in the Republic of The Marshall Islands, neither we nor our controlled affiliates are subject to income, capital gains, profits or other taxation under current Marshall Islands law. As a result, distributions by controlled affiliates to us are not subject to Marshall Islands taxation.

Other Taxation

We and our subsidiaries are subject to taxation in certain non- U.S. jurisdictions because we or our subsidiaries are either organized, or conduct business or operations, in such jurisdictions. We intend that our business and the business of our subsidiaries will be conducted and operated in a manner that minimizes taxes imposed upon us and our subsidiaries. However, we cannot assure this result as tax laws in these or other jurisdictions may change or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability. Please read Item 18 – Financial Statements: Note 14 – Income Taxes.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We are an international provider of marine transportation, oil production and storage services to the offshore oil industry focusing on the fast-growing, deep-water offshore oil regions of the North Sea and Brazil. We were formed in August 2006 by Teekay Corporation, a leading provider of marine services to the global oil and natural gas industries, to further develop its operations in the offshore market. We operate shuttle tankers, floating storage and off-take (or *FSO*) units, floating production, storage and off-loading (or *FPSO*) units and conventional crude oil tankers. Our current fleet consists of 37 shuttle tankers (including four chartered-in vessels, and four committed newbuildings), three FPSO units, five FSO units and six conventional oil tankers, in which our interests range from 50% to 100%.

Our growth strategy focuses on expanding our fleet of shuttle tankers and FPSO and FSO units under long-term, fixed-rate time charters. We intend to continue our practice of acquiring shuttle tankers and FPSO and FSO units as needed for approved projects only after the long-term charters for the projects have been awarded to us, rather than ordering vessels on a speculative basis. We seek to capitalize on opportunities emerging from the global expansion of the offshore transportation, production and storage sectors by selectively targeting long-term, fixed-rate time charters. We have entered into and may enter into joint ventures and partnerships with companies that may provide increased access to long-term, fixed-rate time charter opportunities or may engage in vessel or business acquisitions. We seek to leverage the expertise, relationships and reputation of Teekay Corporation and its affiliates to pursue these growth opportunities in the offshore sectors and may consider other opportunities to which our competitive strengths are well suited. We have rights to participate in certain other FPSO and shuttle tanker opportunities provided by Teekay Corporation and Sevan Marine ASA. In addition, we have agreed to acquire the *Voyageur Spirit* FPSO unit from Teekay Corporation, which is expected to be completed in April 2013. Our operating fleet trades on medium to long-term, stable contracts and we are structured as a publicly-traded master limited partnership.

SIGNIFICANT DEVELOPMENTS

In June 2011, we entered into a new long-term contract with a subsidiary of BG Group plc (or *BG*) to provide shuttle tanker services in Brazil. The contract with BG will be serviced by four Suezmax newbuilding shuttle tankers (or the *BG Shuttle Tankers*), being constructed by Samsung Heavy Industries for an estimated total cost of approximately $446 million (excluding capitalized interest and miscellaneous construction costs). Upon their scheduled deliveries in mid-to-late 2013, the BG Shuttle Tankers will commence operations under ten-year, fixed-rate time-charter-out contracts. The contracts with BG also include certain extension options and vessel purchase options exercisable by the charterer.

In November 2011, Teekay Corporation agreed to acquire from Sevan Marine ASA (or *Sevan*) the *Voyageur Spirit* FPSO unit upon the completion of certain upgrades and commencement of the unit's charter contract. In September 2012, we agreed to acquire the *Voyageur Spirit* FPSO unit from Teekay Corporation at a purchase price of approximately $540 million, subject to financing. This acquisition is expected to take place upon commencement of the unit's charter contract which is expected to be in April 2013. The *Voyageur Spirit* will operate on the Huntington Field in the North Sea under a five-year contract with E.ON Ruhrgas UK E&P Limited (or *E.ON*), plus extension options. We will finance the acquisition through the assumption of a new $330 million debt facility secured by the asset, a portion of the proceeds from our public offering completed in September 2012 and a $40 million equity private placement of common units to Teekay Corporation. In February 2013, we made a partial prepayment of $150.0 million to Teekay Corporation in connection with the acquisition of the *Voyageur Spirit* FPSO unit. Teekay Corporation will pay us interest at a rate of LIBOR plus a margin of 4.25% on the prepaid funds. Teekay Corporation is obligated to repay us the full amount of prepaid funds, plus accrued interest, if the acquisition does not close before April 30, 2013.

In November 2012, we agreed to acquire a 2010-built HiLoad Dynamic Positioning *(* or *DP*) unit from Remora AS (or *Remora*), a Norway-based offshore marine technology company, for a total purchase price of approximately $55 million, including modification costs. The HiLoad DP unit is a self-propelled dynamic positioning system that attaches to and keeps conventional tankers in position when loading from offshore installations. The transaction is subject to finalizing a ten-year time-charter contract with Petroleo Brasileiro SA (or *Petrobras*) in Brazil. The acquisition of the HiLoad DP unit is expected to be completed in the second quarter of 2013 and the unit is expected to commence operating at its full time-charter rate in early 2014 once modifications, delivery of the DP unit to Brazil, and operational testing have been completed. As part of the transaction, Teekay Corporation has also agreed to invest approximately $4.4 million to acquire a 49.9% ownership interest in a recapitalized Remora. In addition, we will enter into an agreement with Remora which will provide us with the right of first refusal to acquire future HiLoad projects developed by Remora.

In November 2012, we acquired the volatile organic compound (or *VOC*) abatement equipment (or *VOC equipment*) installed onboard four of our shuttle tankers from Teekay Corporation for a combined purchase price of $12.9 million. This equipment is operating under a lease contract with the VOC Industry Committee whereby we will receive a fee for each cargo transported from a Norwegian oil field up to a maximum of 139 cargoes for each vessel.

In January 2013, we issued in the Norwegian bond market NOK 1,300 million in senior unsecured bonds. The bond was issued in two tranches maturing in January 2016 (NOK 500 million) and January 2018 (NOK 800 million). The aggregate principal amount of the bonds is equivalent to approximately $233 million and all interest and principal payments under each of the two tranches have been swapped into U.S. dollars at fixed rates of 4.80% on the tranche maturing in 2016 and 5.93% on the tranche maturing in 2018. In connection with this financing, we repurchased NOK 388.5 million of the existing NOK 600 million bond issue maturing in November 2013. We used the net proceeds of approximately $167 million to reduce a portion of amounts outstanding under our revolving credit facilities and for general partnership purposes. We will apply to list the bonds on the Oslo Stock Exchange.

In January 2013, we signed a letter of intent with Salamander Energy plc to supply an FSO unit in Asia for a firm charter period of ten years commencing in mid-2014. We intend to convert our 1993-built shuttle tanker the *Navion Clipper* into an FSO unit for an estimated cost of approximately $50 million. We are in the process of finalizing the contract terms with the charterer.

Potential Additional Shuttle Tanker, FSO and FPSO Projects

Pursuant to an omnibus agreement that we entered into in connection with our initial public offering in December 2006, Teekay Corporation is obligated to offer to us its interest in certain shuttle tankers, FSO units and FPSO units Teekay Corporation owns or may acquire in the future, provided the vessels are servicing contracts with remaining durations of greater than three years. We may also acquire other vessels that Teekay Corporation may offer us from time to time and we intend to pursue direct acquisitions from third parties and new offshore projects.

Pursuant to the omnibus agreement and a subsequent agreement, Teekay Corporation is obligated to offer to sell to us the *Petrojarl Foinaven* FPSO unit, an existing unit owned by Teekay Corporations and operating under a long-term contract in the North Sea, prior to July 9, 2013. The purchase price for the *Petrojarl Foinaven* FPSO unit will be its fair market value plus any additional tax or other costs to Teekay Corporation that would be required to transfer the FPSO unit to us.

In October 2010, Teekay Corporation signed a long-term contract with Petrobras to provide an FPSO unit for the Tiro and Sidon fields located in the Santos Basin offshore Brazil. The contract with Petrobras is being serviced by a newly-converted FPSO unit named *Cidade de Itajai* in which Teekay Corporation has a 50% interest. This FPSO unit delivered from the shipyard in mid-November 2012 and achieved first oil in mid-February 2013, at which time the unit commenced operations under a nine-year, fixed-rate time-charter contract with Petrobras with six additional one-year extension options. Pursuant to the omnibus agreement, Teekay Corporation is obligated to offer to us its 50% interest in this FPSO project at Teekay Corporation’s fully built-up cost within approximately one year after the commencement of the charter with Petrobras.

In May 2011, Teekay Corporation entered into a joint venture agreement with Odebrecht Oil & Gas S.A. (a member of the Odebrecht group) (or *Odebrecht*) to jointly pursue FPSO projects in Brazil. As part of the joint venture agreement, Odebrecht is a 50% partner in the *Cidade de Itajai* FPSO project and Teekay Corporation is currently working with Odebrecht on other FPSO project opportunities which, if awarded, may result in the future offer of additional FPSO units to us pursuant to the omnibus agreement.

In June 2011, Teekay Corporation entered into a contract with BG Norge Limited to provide a harsh weather FPSO unit to operate in the North Sea. The contract will be serviced by an FPSO unit being constructed by Samsung Heavy Industries for a fully built-up cost of approximately $1 billion. Pursuant to the omnibus agreement, Teekay Corporation is obligated to offer to us its interest in this FPSO project at Teekay Corporation’s fully built-up cost within a year after the commencement of the charter, which commencement is expected to occur during the first half of 2014.

In November 2011, Teekay Corporation acquired from Sevan the *Hummingbird Spirit* FPSO unit (which is currently operating under a short-term charter contract). Pursuant to the omnibus agreement, Teekay Corporation is obligated to offer us the *Hummingbird Spirit* FPSO unit within approximately one year following commencement of a charter contract with a firm period of greater than three years in duration.

Our Contracts and Charters

We generate revenues by charging customers for the transportation and storage of their crude oil using our vessels. Historically, these services generally have been provided under the following basic types of contractual relationships:

- Contracts of affreightment, whereby we carry an agreed quantity of cargo for a customer over a specified trade route within a given period of time;
- Time charters, whereby vessels we operate and are responsible for crewing are chartered to customers for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates or current market rates;
- Bareboat charters, whereby customers charter vessels for a fixed period of time at rates that are generally fixed, but the customers operate the vessels with their own crews; and
- Voyage charters, which are charters for shorter intervals that are priced on a current, or “spot,” market rate.

We also generate revenues by charging customers for production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate FPSO contracts, but contain a variable component for incentive-based revenues dependent upon operating performance.

The table below illustrates the primary distinctions among these types of charters and contracts:

	Contract of Affreightment	Time Charter	Bareboat Charter	Voyage Charter [1]	FPSO Service Contracts
Typical contract length	One year or more	One year or more	One year or more	Single voyage	Long-term
Hire rate basis [2]	Typically daily	Daily	Daily	Varies	Daily
Voyage expenses [3]	We pay	Customer pays	Customer pays	We pay	Not applicable
Vessel operating expenses [3]	We pay	We pay	Customer pays	We pay	We pay
Off hire [4]	Customer typically does not pay	Varies	Customer typically pays	Customer does not pay	Not applicable
Shutdown [5]	Not applicable	Not applicable	Not applicable	Not applicable	Varies

(1) Under a consecutive voyage charter, the customer pays for idle time.
(2) *"Hire"* rate refers to the basic payment from the charterer for the use of the vessel.
(3) Defined below under "Important Financial and Operational Terms and Concepts."
(4) *"Off hire"* refers to the time a vessel is not available for service.
(5) *"Shutdown"* refers to the time production services are not available.

Important Financial and Operational Terms and Concepts

We use a variety of financial and operational terms and concepts. These include the following:

Revenues. Revenues primarily include revenues from contracts of affreightment, time charters, bareboat charters, voyage charters and FPSO contracts. Revenues are affected by hire rates and the number of days a vessel operates and the daily production volume on FPSO units. Revenues are also affected by the mix of business between contracts of affreightment, time charters, bareboat charters and voyage charters. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

Voyage Expenses. Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the customer under time charters and bareboat charters and by the shipowner under voyage charters and contracts of affreightment. When we pay voyage expenses, they typically are added to the hire rates at an approximate cost.

Net Revenues. Net revenues represent revenues less voyage expenses incurred by us. Because the amount of voyage expenses we incur for a particular charter depends upon the type of charter, we use net revenues to improve the comparability between periods of reported revenues that are generated by the different types of charters. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us about the deployment of our vessels and their performance than revenues, the most directly comparable financial measure under accounting principles generally accepted in the United States (or *GAAP*).

Vessel Operating Expenses. Under all types of charters and contracts for our vessels, except for bareboat charters, we are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. The two largest components of our vessel operating expenses are crew costs and repairs and maintenance. We expect these expenses to increase as our fleet matures and to the extent that it expands.

Time-Charter Hire Expenses. Time-charter hire expenses represent the cost to charter-in a vessel for a fixed period of time.

Income from Vessel Operations. To assist us in evaluating operations by segment, we sometimes analyze the income we receive from each segment after deducting operating expenses, but prior to the deduction of interest expense, taxes, realized and unrealized gains (losses) on non-designated derivative instruments, foreign currency exchange gains and losses and other income and losses.

Dry docking. We must periodically dry dock our shuttle tankers and conventional oil tankers for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. We may dry dock FSO units if we desire to qualify them for shipping classification. Generally, we dry dock each of our vessels every two and a half to five years, depending upon the type of vessel and its age. We capitalize a substantial portion of the costs incurred during dry docking and amortize those costs on a straight-line basis from the completion of a dry docking over the estimated useful life of the dry dock. We expense costs related to routine repairs and maintenance performed during dry docking that do not improve or extend the useful lives of the assets, and for annual class survey costs on our FPSO units. The number of dry dockings undertaken in a given period and the nature of the work performed determine the level of dry-docking expenditures.

Depreciation and Amortization. Depreciation and amortization expense typically consists of:

- charges related to the depreciation of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of the vessels;
- charges related to the amortization of dry-docking expenditures over the estimated useful life of the dry docking; and
- charges related to the amortization of the fair value of contracts of affreightment where amounts have been attributed to those items

in acquisitions; these amounts are amortized over the period in which the asset is expected to contribute to future cash flows.

Revenue Days. Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with major repairs or dry dockings. Consequently, revenue days represent the total number of days available for the vessel to earn revenue. Idle days, which are days when the vessel is available to earn revenue, yet is not employed, are included in revenue days. We use revenue days to show changes in net revenues between periods.

Calendar-Ship-Days. Calendar-ship-days are equal to the total number of calendar days that our vessels were in our possession during a period. We use calendar-ship-days primarily to highlight changes in vessel operating expenses, time-charter hire expense and depreciation and amortization. Calendar-ship days are based on our owned and chartered-in fleet, including vessels owned by our 50% and 67% owned subsidiaries.

VOC Equipment. We assemble, install, operate and lease equipment that reduces volatile organic compound emissions during loading, transportation and storage of oil and oil products. Leasing of the VOC equipment is accounted for either as a direct financing lease or as an operating lease. For VOC equipment accounted for as a direct financing lease, payments received are allocated between the net investment in the lease and other income using the effective interest method so as to produce a constant periodic rate of return over the lease term.

Items You Should Consider When Evaluating Our Results

You should consider the following factors when evaluating our historical financial performance and assessing our future prospects:

- ***Our financial results reflect the results of the interests in vessels acquired from Teekay Corporation for all periods the vessels were under common control.*** In April 2010, we acquired from Teekay Corporation the *Falcon Spirit* FSO unit, together with its charter contract. In October 2010, we acquired from Teekay Corporation the *Rio das Ostras* FPSO unit and the *Amundsen Spirit* newbuilding shuttle tanker. In October 2011, we acquired from Teekay Corporation the *Scott Spirit* newbuilding shuttle tanker. These transactions were deemed to be business acquisitions between entities under common control. Accordingly, we have accounted for these transactions in a manner similar to the pooling of interest method. Under this method of accounting, our financial statements prior to the date the interests in these vessels were actually acquired by us are retroactively adjusted to include the results of these acquired vessels. The periods retroactively adjusted include all periods that we and the acquired vessels were both under common control of Teekay Corporation and had begun operations. As a result, our applicable consolidated financial statements reflect the vessels and their results of operations, referred to herein as the *Dropdown Predecessor* , as if we had acquired them when the vessels began operations under the ownership of Teekay Corporation on December 15, 2009, April 1, 2008, July 30, 2010 and July 22, 2011, respectively. Please read Item 18 – Financial Statements: Note 2 – Dropdown Predecessor.
- ***The size of our fleet continues to change.*** Our results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries and vessel dispositions. Please read “– Results of Operations” below for further details about vessel dispositions and deliveries. Due to the nature of our business, we expect our fleet to continue to fluctuate in size and composition.
- ***Vessel operating and other costs are facing industry-wide cost pressures*** . The shipping industry continues to experience a global manpower shortage of qualified seafarers due to growth in the world fleet, which in recent years has resulted in upward pressure on manning costs. Lately, the gap between demand and supply of officers has narrowed, which has allowed at least on a temporary basis, for wages in certain sectors to stabilize or have smaller increases than has previously been the case. Going forward, there may be increases in crew compensation as vessel and officer supply dynamics continue to change. In addition, factors such as pressure on commodity and raw material prices, as well as changes in regulatory requirements could also contribute to operating expenditure increases. We continue to take action aimed at improving operational efficiencies, and to temper the effect of inflationary and other price escalations; however increases to operational costs are still likely to occur in the future.
- ***Our financial results of operations are affected by fluctuations in currency exchange rates*** . Under GAAP, all foreign currency-denominated monetary assets and liabilities (such as cash and cash equivalents, accounts receivable, accounts payable, advances from affiliates and deferred income taxes) are revalued and reported based on the prevailing exchange rate at the end of the period. We have entered into services agreements with subsidiaries of Teekay Corporation whereby the subsidiaries operate and crew the vessels. Payments under the service agreements are adjusted to reflect any change in Teekay Corporation’s cost of providing services based on fluctuations in the value of the Norwegian Kroner relative to the U.S. Dollar, which may result in increased payments under the services agreements if the strength of the U.S. Dollar declines relative to the Norwegian Kroner.
- ***Our net income (loss) is affected by fluctuations in the fair value of our derivatives instruments*** . Our interest rate swaps, cross currency swaps and some of our foreign currency forward contracts are not designated as hedges for accounting purposes. Although we believe these derivative instruments are economic hedges, the changes in their fair value are included in our statements of income (loss) as unrealized gains or losses on derivatives for interest rate swaps and some of our foreign currency forward contracts and as foreign exchange gains or losses for the cross currency swaps. The changes in fair value do not affect our consolidated cash flows, liquidity or cash distributions to partners.
- ***Our operations are seasonal and our financial results vary as a consequence of dry dockings.*** Historically, the utilization of shuttle tankers in the North Sea is higher in the winter months, as favorable weather conditions in the warmer months provide opportunities for repairs and maintenance to our vessels and to offshore oil platforms. Downtime for repairs and maintenance generally reduces oil production and, thus, transportation requirements. In addition, we generally do not earn revenue when our vessels are in scheduled and unscheduled dry docking. Eight vessels, including both conventional and shuttle tankers, are scheduled for dry docking in 2013. From time to time, unscheduled dry dockings may cause additional fluctuations in our financial results.

We manage our business and analyze and report our results of operations on the basis of four business segments: the shuttle tanker segment, the FPSO segment, the conventional tanker segment and the FSO segment, each of which are discussed below.

Results of Operations

Year Ended December 31, 2012 versus Year Ended December 31, 2011

Shuttle Tanker Segment

As at December 31, 2012, our shuttle tanker fleet consisted of 34 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters. Of the 34 shuttle tankers, six were owned through 50% owned subsidiaries, three through a 67% owned subsidiary and four were chartered-in, with the remainder owned 100% by us. All of these shuttle tankers provide transportation services to energy companies, primarily in the North Sea and Brazil. Our shuttle tankers service the conventional spot tanker market from time to time. We also have four newbuilding shuttle tankers on order which are scheduled to deliver mid-to-late 2013. Subsequent to December 31, 2012, we sold a 1992-built owned shuttle tanker. This vessel was previously laid up in July 2011, following the maturity of its time-charter-out contract.

The following table presents our shuttle tanker segment's operating results for 2012 and 2011, and compares its net revenues (which is a non-GAAP financial measure) for 2012 and 2011, to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our shuttle tanker segment:

	Year Ended December 31,		
(in thousands of U.S. dollars, except calendar-ship-days and percentages)	2012	2011	% Change
Revenues	569,519	573,296	(0.7)
Voyage expenses	104,394	95,864	8.9
Net revenues	465,125	477,432	(2.6)
Vessel operating expenses	135,993	161,890	(16.0)
Time-charter hire expense	56,989	74,478	(23.5)
Depreciation and amortization	122,921	115,637	6.3
General and administrative (1)	45,110	49,444	(8.8)
Write down of vessels	23,430	28,270	(17.1)
Loss on sale of vessels	1,112	—	100.0
Restructuring charge	647	1,227	(47.3)
Income from vessel operations	78,923	46,486	69.8
Calendar-Ship-Days			
Owned Vessels	11,530	11,308	2.0
Chartered-in Vessels	1,459	2,007	(27.3)
Total	12,989	13,315	(2.4)

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the shuttle tanker segment based on estimated use of corporate resources).

The average size of our owned shuttle tanker fleet increased in 2012 compared to 2011, primarily due to the purchase from Teekay Corporation of two new building shuttle tankers, the *Peary Spirit* and the *Scott Spirit* , in August 2011 and October 2011, respectively (or the *2011 Newbuilding Shuttle Tankers Acquisitions*), partially offset by the sale of the *Navion Fennia* in July 2012 and the *Navion Savonita* in November 2012. Included in calendar-ship-days are two owned shuttle tankers which have been in lay-up since July 2011 and May 2012, respectively, following their redelivery to us upon maturity of their time-charter-out contracts in March 2011 and April 2012.

The average size of our chartered-in shuttle tanker fleet decreased in 2012 compared to 2011, primarily due to:

- the redelivery of one bareboat-in vessel to its owner in October 2011;
- decreased spot chartered-in vessels in 2012 compared to the same period last year; and
- more off-hire days in 2012 compared to the same period last year.

Net Revenues. Net revenues decreased for 2012 from 2011, primarily due to:

- a decrease of $11.6 million due to the lay-up of two of our vessels following their redelivery to us in July 2011 and May 2012, respectively, upon maturity of the time-charter-out contracts;
- a decrease of $8.6 million due to less opportunities to trade excess capacity in the conventional spot tanker market and in short-term offshore projects due to decreased demand for conventional crude transportation; and
- a decrease of $3.6 million due to more drydock and repair off-hire days in our time-chartered-out fleet in 2012 as compared to 2011;

partially offset by

- a net increase of $11.0 million due to an increase in revenues in our contract of affreightment fleet, and an increase in revenues in our time-chartered-out fleet from entering into new contracts and an increase in rates as provided in certain contracts, partially offset by fewer revenue days from the redelivery of six vessels to us in July 2011, February 2012, March 2011, April 2012, and two in November 2012 as they completed their time-charter-out agreements.

Vessel Operating Expenses. Vessel operating expenses decreased for 2012 from 2011, primarily due to:

- a decrease of $10.6 million relating to the lay-up of two of our shuttle tankers since July 2011 and May 2012 and the reduction in costs associated with the sale of two of our older shuttle tankers in July 2012 and November 2012;

- a decrease of $7.1 million due to a decrease in costs related to services and spares and the number of vessels dry docked. Certain repair and maintenance items are more efficient to complete while a vessel is in dry dock. Consequently, repair and maintenance costs will typically increase in periods when there is an increase in the number of vessels dry docked;
- a decrease of $5.9 million in crew and manning costs primarily from changes in crew compensation and reduced helicopter usage;
- a decrease of $4.5 million relating to the redelivery of one bareboat-in vessel to its owner in October 2011; and
- a decrease of $1.3 million relating to a decrease in start up costs associated with less short-term offshore projects;

partially offset by

- an increase of $4.3 million due to the 2011 Newbuilding Shuttle Tanker Acquisitions.

Time-Charter Hire Expense. Time-charter hire expense decreased for 2012 from 2011, primarily due to:

- a decrease of $8.7 million due to the redelivery of one bareboat-in vessel to their owner in October 2011; and
- a decrease of $7.8 million due to decreased spot in-chartering during 2012.

Depreciation and Amortization. Depreciation and amortization expense increased for 2012 from 2011, primarily due the accelerated depreciation related to a change in the useful life for six older shuttle tankers and the 2011 Newbuilding Shuttle Tanker Acquisitions, partially offset by less depreciation relating to the impairment and write-down of two older shuttle tankers in 2011 to their estimated fair value and the sale of the two older shuttle tankers in 2012.

Write down of Vessels. Write down of vessels was $23.4 million for 2012, resulting from the impairment of four older shuttle tankers. We determined these vessels were impaired and wrote down the carrying values of these vessels to their estimated fair value, due to a change in operating plan for these vessels. Write down of vessels was $28.3 million for 2011, resulting from the impairment of three shuttle tankers, all of which were 20-years old in 2012. These vessels' carrying values were written down to their estimated fair value.

Loss on sale of vessels. Loss on sale of vessels was $1.1 million for 2012 relating to the sale of two 1992-built shuttle tankers.

Restructuring Charge. Restructuring charges were $0.6 million for 2012, resulting from a reorganization of marine operations to create better alignment within the shuttle tanker business unit to create a reduced-cost organization going forward. Restructuring charges were $1.2 million for 2011, resulting from the termination of the time-charter-out contract for the *Basker Spirit* .

FPSO Segment

Our FPSO fleet consists of the *Petrojarl Varg,* the *Cidade de Rio das Ostras* (or *Rio das Ostras*) and the *Piranema Spirit* , all of which we own 100%. We use the FPSO units to provide production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate FPSO contracts. Historically, the utilization of FPSO units and other vessels in the North Sea, where the *Petrojarl Varg* operates, is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to our vessels and the offshore oil platforms, which generally reduces oil production.

The following table presents our FPSO segment's operating results for 2012 and 2011, and also provides a summary of the calendar-ship-days for our FPSO segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Year Ended December 31, 2012	2011	% Change
Revenues	231,688	173,836	33.3
Vessel operating expenses	100,668	76,716	31.2
Depreciation and amortization	50,905	37,496	35.8
General and administrative [(1)]	22,395	15,474	44.7
Income from vessel operations	57,720	44,150	30.7
Calendar-Ship-Days			
Owned Vessels	1,098	761	44.3

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the FPSO segment based on estimated use of corporate resources).

The number of our FPSO units for 2012 increased compared to last year due to the acquisition of the *Piranema Spirit* on November 30, 2011.

Revenues. Revenues increased for 2012 from 2011, primarily due to:

- an increase of $55.6 million relating to the acquisition of the *Piranema Spirit* in November 2011;

- an increase of $6.7 million due to the recovery of crew and manning costs. In 2011 these recoveries were reported on a net basis in vessel operating expenses; and
- an increase of $5.6 million due to increased rates on the *Petrojarl Varg* and *Rio das Ostras* in accordance with annual contractual escalation adjustments;

partially offset by

- a decrease of $3.5 million relating to payments made to us during 2011 for services previously rendered to the charterer of the *Rio das Ostras* ;
- a decrease of $3.5 million due to decreased incentives and lower production on the *Petrojarl Varg* and partly due to a planned maintenance shutdown of that unit during the second quarter of 2012;
- a decrease of $2.0 million due to the strengthening of the U.S. Dollar against the Norwegian Kroner; and
- a decrease of $1.2 million relating to a credit earned in 2011 from the charterer of the *Rio das Ostras* for unused maintenance days in accordance with the service contract.

Vessel Operating Expenses. Vessel operating expenses increased for 2012 from 2011, primarily due to:

- an increase of $24.2 million due to the acquisition of the *Piranema Spirit* in November 2011;
- an increase of $5.1 million due to the recovery of certain crew and manning costs, where the recovery is reported in revenue in 2012. In 2011 these recoveries were reported on a net basis in vessel operating expenses; and
- an increase of $2.7 million due to higher maintenance costs relating to the *Petrojarl Varg* during the third quarter of 2012;

partially offset by

- a decrease of $4.0 million due to the strengthening of the U.S. Dollar against the Norwegian Kroner compared to 2011;
- a decrease of $3.4 million due to repairs on the *Rio das Ostras* while on yard stay and higher consumables and spares during the first quarter of 2011 and deployment to the field during the second quarter of 2011; and
- a decrease of $1.4 million due to lower crew and manning costs relating to the *Rio das Ostras* due to its deployment to the field during the second quarter of 2011.

Depreciation and Amortization Expense. Depreciation and amortization expense increased for 2012 from 2011, primarily due to the acquisition of the *Piranema Spirit* in November 2011.

Conventional Tanker Segment

As at December 31, 2012, we owned 100% interests in five Aframax conventional crude oil tankers (four of which operate under fixed-rate time charters with Teekay Corporation, and one of which has been laid up indefinitely), and two vessels, which have additional equipment for lightering, which operate under fixed-rate bareboat charters with Skaugen PetroTrans, Teekay Corporation's 50% owned joint venture. The analysis below excludes five additional tankers as they are determined to be discontinued operations, including the *Leyte Spirit* , which was sold subsequent to December 31, 2012, three tankers sold in the latter half of 2012, and one tanker sold in 2011.

The following table presents our conventional tanker segment's operating results for 2012 and 2011, and compares its net revenues (which is a non-GAAP financial measure) for 2012 and 2011, to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our conventional tanker segment. The table below excludes the results of five tankers as they are determined to be discontinued operations.

	Year Ended December 31,		
(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**2012**	**2011**	**% Change**
Revenues	62,029	63,638	(2.5)
Voyage expenses	11,317	9,125	24.0
Net revenues	50,712	54,513	(7.0)
Vessel operating expenses	11,663	10,887	7.1
Depreciation and amortization	10,519	11,341	(7.2)
General and administrative (1)	3,189	2,809	13.5
Restructuring charge	468	—	100.0
Income from vessel operations	24,873	29,476	(15.6)
Calendar-Ship-Days			
Owned Vessels	2,196	2,190	0.3

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the conventional tanker segment based on estimated use of corporate resources).

Net Revenues. Net revenues decreased for 2012 from 2011, primarily due to a decrease of $3.7 million due to increased off-hire days and lower reimbursed bunkers.

FSO Segment

Our FSO fleet consists of five vessels that operate under fixed-rate time charters or fixed-rate bareboat charters. We have 100% ownership interests in these units. FSO units provide an on-site storage solution to oil field installations that have no oil storage facilities or that require supplemental storage. Our revenues and vessel operating expenses for the FSO segment are affected by fluctuations in currency exchange rates, as a significant component of revenues are earned and vessel operating expenses are incurred in Norwegian Kroner and Australian Dollars for certain vessels. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner and Australian Dollar may result in significant decreases or increases, respectively, in our revenues and vessel operating expenses.

The following table presents our FSO segment's operating results for 2012 and 2011, and compares its net revenues (which is a non-GAAP financial measure) for 2012 and 2011, to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days for our FSO segment:

	Year Ended December 31,		
(in thousands of U.S. dollars, except calendar-ship-days and percentages)	2012	2011	% Change
Revenues	62,901	62,731	0.3
Voyage expenses	400	1,388	(71.2)
Net revenues	62,501	61,343	1.9
Vessel operating expenses	36,388	30,470	19.4
Depreciation and amortization	9,038	12,009	(24.7)
General and administrative [(1)]	3,705	3,779	(2.0)
Loss on sale of vessel	—	171	(100.0)
Write down of vessels	—	8,598	(100.0)
Restructuring charge	—	2,697	(100.0)
Income from vessel operations	13,370	3,619	269.4
Calendar-Ship-Days			
Owned Vessels	1,830	1,901	(3.7)

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the FSO segment based on estimated use of corporate resources).

In March 2011, we sold one of our FSO units, the *Karratha Spirit* , for proceeds of $5.1 million, resulting in a loss of $0.2 million.

Net Revenues. Net revenues increased for 2012 from 2011, primarily due to:

- an increase of $5.5 million from engineering studies completed in 2012 to support our FSO tenders; and
- an increase of $1.2 million due to a higher charter rate on two FSO units, lower bunkers expense and one additional day in 2012 as compared to 2011;

partially offset by

- a decrease of $3.2 million due to the sale of the *Karratha Spirit* in March 2011; and
- a decrease of $2.3 million due to the drydocking of the *Navion Saga* during the third quarter of 2012.

Vessel Operating Expenses . Vessel operating expenses increased for 2012 from 2011, primarily due to an increase of $7.3 million due to expenditures on projects completed to support our direct FSO tenders, partially offset by a decrease of $1.8 million related to the sale of the *Karratha Spirit* in March 2011.

Depreciation and amortization. Depreciation and amortization expense decreased for 2012 from 2011, primarily due to a decrease of $2.1 million due to the write down of the carrying value of the *Navion Saga* to its estimated fair value in December 2011.

Write down of vessels. Write down of vessels was $8.6 million for 2011. We determined the *Navion Saga* was impaired mainly due to escalating dry-dock costs and increased operating costs. We wrote down the carrying value of the vessel to its estimated fair value.

Restructuring charge. Restructuring charges for 2011 were incurred in connection with the termination of employment for certain of the crew members of the *Karratha Spirit* following the sale of the vessel in March 2011.

Other Operating Results

General and Administrative Expenses. General and administrative expenses increased to $74.4 million for 2012, from $71.5 million for 2011, mainly relating to the acquisition of the *Piranema Spirit* FPSO unit in November 2011, a success fee paid to Teekay Corporation relating to the acquisition of the *Piranema Spirit* in November 2011, a net decrease in management fees payable to subsidiaries of Teekay Corporation for services rendered to us due to increased external revenues partially offset by increases in business development costs supporting our direct tenders, an increase during 2012 in realized and unrealized gains on foreign currency forward contracts that have been designated as hedges for accounting purposes, a decrease in direct costs and general cost savings associated with the restructuring in 2012 of our conventional tanker business unit, and a reduction in management fees related to the sale of the *Karratha Spirit* in March 2011.

Interest Expense. Interest expense, which excludes realized and unrealized gains and losses from interest rate swaps, increased to $47.8 million for 2012, from $36.2 million for 2011, primarily due to:

- an increase of $7.2 million from the issuance of the NOK 600 million senior unsecured bonds in January 2012;
- an increase of $4.1 million related to the new $130 million debt facility secured by the *Piranema Spirit* FPSO unit in February 2012; and
- an increase of $3.0 million due to increased interest rates during 2012, compared to 2011;

partially offset by

- a decrease of $3.0 million related to scheduled repayments and prepayments of debt during 2012 and 2011.

Realized and Unrealized Losses on Derivatives . Net realized and unrealized losses on non-designated derivatives were $26.3 million for 2012, compared to $159.7 million for 2011.

During 2012 and 2011, we had interest rate swap agreements with aggregate average outstanding notional amounts of approximately $1.6 billion with average fixed rates of approximately 4.3% for both years. Short-term variable benchmark interest rates during these periods were generally less than 1.2% and, as such, we incurred realized losses of $58.6 million and $58.5 million, respectively, during 2012 and 2011 under the interest rate swap agreements.

The net unrealized gain resulted from the transfer of $58.6 million of previously recognized unrealized losses to realized losses related to actual cash settlements, offset by an incremental $32.5 million of unrealized losses relating to further declines in long-term LIBOR benchmark interest rates relative to the prior year. Due to significant decreases in long-term benchmark interest rates in 2011, we recognized unrealized losses of $100.3 million in 2011. Please see Item 5 – Operating and Financial Review and Prospects: Valuation of Derivative Instruments, which explains how our derivative instruments are valued, including the significant factors and uncertainties in determining the estimated fair value and why changes in these factors result in material variances in realized and unrealized (losses) gain on derivative instruments.

Foreign Currency Exchange (Losses) Gains. Foreign currency exchange losses were $0.3 million for 2012, compared to a $1.5 million gain for 2011. Our foreign currency exchange losses and gains, substantially all of which are unrealized, are due primarily to the relevant period-end revaluation of Norwegian Kroner-denominated monetary assets and liabilities for financial reporting purposes and the realized and unrealized gains and losses on our cross currency swaps. Gains on Norwegian Kroner-denominated monetary liabilities reflect a stronger U.S. Dollar against the Norwegian Kroner on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses on Norwegian Kroner-denominated monetary liabilities reflect a weaker U.S. Dollar against the Norwegian Kroner on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. For 2012, foreign currency exchange losses and gains include a realized gain of $3.0 million (2011 – $2.9 million) and an unrealized gain (loss) of $10.7 million (2011 – ($1.6) million) on the cross currency swap and an unrealized (loss) gain of ($13.9) million (2011 – $2.6 million) on the revaluation of the Norwegian Kroner denominated debt.

Other Income. Other income was $1.5 million for 2012, compared to $3.7 million for 2011, which was primarily comprised of leasing income from certain of our VOC equipment and the unrealized gain / (loss) on the contingent consideration liability relating to the *Scott Spirit* acquisition (please read Item 18. Financial Statements: Note 4a – Financial Instruments). The leasing income is decreasing as the contracts near completion.

Income Tax Recovery (Expense). Income tax recovery (expense) was $10.5 million for 2012, compared to ($6.7) million for 2011. The increase to income tax recovery was primarily due to a new Norwegian tax structure established in the fourth quarter of 2012 which resulted in a $8.6 million deferred tax recovery for our Norwegian tax group by being able utilize past losses carried forward against future projected income, whereas 2011 included a $5.0 million current tax expense for this tax group. In 2012 we also recognized a deferred income tax recovery of $3.1 million relating to the reversal of an uncertain tax position accrual during 2012.

Net Income (Loss) from Discontinued Operations. In 2011, we sold the *Scotia Spirit* . In 2012, we sold the *Hamane Spirit* , *Torben Spirit* and *Luzon Spirit* . We also agreed to sell the *Leyte Spirit* , and such vessel is classified as held for sale at December 31, 2012. These operations prior to December 31, 2012 were reported within the conventional tanker segment. Net income (loss) from discontinued operations was $9.6 million for 2012 and ($23.8) million for 2011. Net income from discontinued operations increased for 2012 from 2011, primarily due to:

- a decrease of $52.4 million from the write down of vessels as five conventional tankers were written down in 2011 compared to one in 2012;
- a $14.7 million termination fee received from Teekay Corporation in 2012 in relation to the early cancellation of the time charter

contract for the *Hamane Spirit* ;

- a decrease of $10.0 million in depreciation and amortization expense primarily due to the cessation of depreciation of two held-for-sale vessels effective December 31, 2011 (the *Hamane Spirit* and the *Torben Spirit*) the sale of the *Scotia Spirit* in 2011, and the write down of the *Leyte Spirit* and the *Luzon Spirit* to their estimated fair value in the fourth quarter of 2011;

- a decrease of $3.3 million in vessel operating expenses due to the sale of the *Scotia Spirit* , the *Hamane Spirit* and the *Torben Spirit* ; and
- a decrease of $2.3 million in vessel operating expenses due to the lay ups of the *Leyte Spirit* and *Luzon Spirit* commencing in April 2012;

partially offset by

- a decrease of $23.4 million in net revenues due to the *Leyte Spirit* and *Luzon Spirit* operating in the spot tanker market until April 2012 after which they were laid up indefinitely, compared to 2011 when they were operating under fixed-rate time charters;
- a decrease of $20.2 million in net revenues due to the sale of the *Scotia Spirit* , the *Hamane Spirit* and the *Torben Spirit* ; and
- a $6.0 million loss on sale of vessels in 2012.

Year Ended December 31, 2011 versus Year Ended December 31, 2010

Shuttle Tanker Segment

As at December 31, 2011, our shuttle tanker fleet consisted of 36 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters. Of the 36 shuttle tankers, six were owned through 50% owned subsidiaries, three through a 67% owned subsidiary and four were chartered-in, with the remainder owned 100% by us. All of these shuttle tankers provide transportation services to energy companies, primarily in the North Sea and Brazil. Our shuttle tankers service the conventional spot tanker market from time to time. We also have four newbuilding shuttle tankers on order which are to deliver mid to late 2013.

The following table presents our shuttle tanker segment's operating results for 2011 and 2010, and compares its net revenues (which is a non-GAAP financial measure) for 2011 and 2010, to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our shuttle tanker segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Year Ended December 31, 2011	Year Ended December 31, 2010	% Change
Revenues	573,296	559,547	2.5
Voyage expenses	95,864	104,460	(8.2)
Net revenues	477,432	455,087	4.9
Vessel operating expenses	161,890	143,766	12.6
Time-charter hire expense	74,478	89,795	(17.1)
Depreciation and amortization	115,637	111,157	4.0
General and administrative (1)	49,444	42,526	16.3
Write down of vessel	28,270	9,441	100.0
Restructuring charge	1,227	119	931.1
Income from vessel operations	46,486	58,283	(20.2)
Calendar-Ship-Days			
Owned Vessels	11,308	10,411	8.6
Chartered-in Vessels	2,007	2,434	(17.5)
Total	13,315	12,845	3.7

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the shuttle tanker segment based on estimated use of corporate resources).

We acquired the *Scott Spirit* and *Amundsen Spirit* newbuilding shuttle tankers from Teekay Corporation in October 2011 and October 2010, respectively. However, as a result of the inclusion of the Dropdown Predecessors, the *Scott Spirit* and *Amundsen Spirit* have been included for accounting purposes in our results as if they were acquired on July 22, 2011 and July 30, 2010, respectively, when the vessels began operations under the ownership of Teekay Corporation. For information about the Dropdown Predecessors, please read Note 2 to our Consolidated Financial Statements included in this report.

We consolidated the *Nansen Spirit* and *Peary Spirit* newbuilding shuttle tankers as variable interest entities in our consolidated financial statements from October 1, 2010 to December 10, 2010 and August 2, 2011, the dates on which we acquired Teekay Corporation's 100% interests in the Nansen Spirit LLC and Peary Spirit LLC, respectively.

The average size of our owned shuttle tanker fleet increased in 2011 compared to 2010, primarily due to:

- the purchase from Teekay Corporation of four newbuilding shuttle tankers, the *Amundsen Spirit*, the *Nansen Spirit*, the *Peary Spirit* and the *Scott Spirit* , in October 2010, December 2010, August 2011 and October 2011, respectively (or the *2010 and 2011 Newbuilding Shuttle Tanker Acquisitions*); and
- the acquisition of one previously chartered-in vessel in February 2010 by our majority owned subsidiary (or the *2010 Shuttle Tanker Acquisition*).

The average size of our chartered-in shuttle tanker fleet decreased in 2011 from 2010, primarily due to:

- the redelivery of two time-chartered-in vessels to their owners in February 2010 and November 2010, respectively;
- the redelivery of one bareboat-in vessel to its owner in October 2011; and
- the 2010 Shuttle Tanker Acquisition;

partially offset by

- increased spot chartered-in vessels in 2011 as compared to 2010; and
- less off-hire days in 2011 as compared to 2010.

Net Revenues. Net revenues increased for 2011 from 2010, primarily due to:

- an increase of $38.5 million due to the 2010 and 2011 Newbuilding Shuttle Tanker Acquisitions;
- an increase of $16.4 million due to an increase in revenues in our time-chartered-out fleet from entering into new contracts and an increase in rates as provided in certain bareboat and time-charter-out contracts; and
- an increase of $1.8 million related to an increase in reimbursable bunker costs as provided for in amended terms in existing contracts during 2010, partially offset by higher bunker costs as compared to the same period last year;

partially offset by

- a decrease of $24.4 million due to fewer revenue days from our contract of affreightment shuttle fleet from the declining oil production at mature oil fields in the North Sea compounded by less opportunities from 2010 to trade this excess capacity in the conventional spot tanker market as a result of decreased demand for conventional crude transportation; and
- a decrease of $10.0 million due to the redelivery of one vessel to us in March 2011 upon termination of the time-charter-out contract.

Vessel Operating Expenses. Vessel operating expenses increased for 2011 from 2010, primarily due to:

- an increase of $15.6 million due to the 2010 and 2011 Newbuilding Shuttle Tanker Acquisitions;
- an increase of $6.5 million in crew and manning costs primarily from a planned increase in wages; and
- an increase of $3.3 million due to an increase in costs related to services and spares and the number of vessels dry docked. Certain repair and maintenance items are more efficient to complete while a vessel is in dry dock. Consequently, repair and maintenance costs will typically increase in periods when there is an increase in the number of vessels dry docked;

partially offset by

- a decrease of $3.5 million relating to the lay up of one of our vessels in July 2011;
- a decrease of $1.1 million relating to the settlement of a claim with a customer in 2010;
- a decrease of $1.1 million relating to the net realized and unrealized changes in fair value of our foreign currency forward contracts that are or have been designated as hedges for accounting purposes; and
- a decrease of $1.0 million relating to the redelivery of one of our bareboat-in vessels to its owner in October 2011.

Time-Charter Hire Expense. Time-charter hire expense decreased for 2011 from 2010, primarily due to:

- a decrease of $13.5 million due to the redelivery of three time-chartered-in vessels to their owners in October 2011, February 2010 and November 2010;
- a decrease of $2.3 million due to the 2010 Shuttle Tanker Acquisition; and
- a decrease of $1.2 million due to lower rates in 2011 on certain contracts in the time-chartered-in fleet;

partially offset by

- an increase of $1.2 million due to increased spot in-chartering during 2011.

Depreciation and Amortization. Depreciation and amortization expense increased for 2011 from 2010, primarily due to the 2010 and 2011 Newbuilding Shuttle Tanker Acquisitions and the 2010 Shuttle Tanker Acquisition, partially offset by less depreciation on (a) dry-docking expenditures where there was a change in useful life in 2010 and (b) one of our shuttle tankers whose book value was written down in 2010.

Write down of Vessels. Write down of vessels was $28.3 million for the year ended December 31, 2011, resulting from the impairment of three older shuttle tankers, all of which will be 20-years old in 2012. We determined these vessels were impaired and wrote down the carrying values of these vessels to their estimated fair value. We identified the following indicators of impairment: the age of the vessels, the requirements of operating in the North Sea, a change in the operating plans for certain vessels, escalating dry-dock costs, a continued decline in the fair market value of vessels, and a general decline in the future outlook for shipping and the global economy combined with delayed optimism on when the recovery may occur. Write down of vessels was $9.4 million for 2010, resulting from the impairment of a 1992-built shuttle tanker, the *Basker Spirit* . The charter contract of the vessel was terminated in early 2011. We wrote down the carrying value of the vessel to its estimated fair value.

FPSO Segment

Our FPSO fleet consists of the *Petrojarl Varg,* the *Rio das Ostras* and the *Piranema Spirit* , all of which we own 100%. We use the FPSO units to provide production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate time-charter contracts or FPSO service contracts. Historically, the utilization of FPSO units and other vessels in the North Sea is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to our vessels and the offshore oil platforms, which generally reduces oil production.

The following table presents our FPSO segment's operating results for 2011 and 2010, and also provides a summary of the calendar-ship-days for our FPSO segment:

	Year Ended December 31,		
(in thousands of U.S. dollars, except calendar-ship-days and percentages)	2011	2010	% Change
Revenues	173,836	151,851	14.5
Vessel operating expenses	76,716	66,157	16.0
Depreciation and amortization	37,496	35,400	5.9
General and administrative (1)	15,474	12,388	24.9
Income from vessel operations	44,150	37,906	16.5
Calendar-Ship-Days			
Owned Vessels	761	730	4.2

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the FPSO segment based on estimated use of corporate resources).

We acquired the *Piranema Spirit* from Sevan Marine ASA on November 30, 2011.

We acquired the *Rio das Ostras* from Teekay Corporation on October 1, 2010. However, as a result of the inclusion of the Dropdown Predecessor, the *Rio das Ostras* has been included for accounting purposes in our results as if it was acquired on April 1, 2008, when it commenced operations. Please read "Items You Should Consider When Evaluating Our Results of Operations – Our financial results reflect the results of the interests in vessels acquired from Teekay Corporation for all periods the vessels were under common control."

Revenues. Revenues increased for 2011 from 2010, primarily due to:

- an increase of $6.7 million for 2011 due to increased rates on the *Rio das Ostras* effective April 2011, concurrent with starting a new contract on the Aruana field off of Brazil;
- an increase of $4.8 million relating to the acquisition of the *Piranema Spirit* ;
- an increase of $4.0 million for 2011 due to foreign currency exchange differences in 2011 as compared to 2010;
- an increase of $3.5 million for 2011, relating to back-pay for services previously rendered to the charterer of the *Rio das Ostras* ; and
- an increase of $3.1 million for 2011 due to a planned maintenance shutdown for 13 days on the *Petrojarl Varg* in the third quarter of 2010.

Vessel Operating Expenses. Vessel operating expenses increased for 2011 from 2010, primarily due to:

- an increase of $6.4 million for 2011 due to the weakening of the U.S. Dollar against the Norwegian Kroner compared to 2010;
- an increase of $3.2 million for 2011 due to increased repairs on the *Rio das Ostras* while on yard stay and higher consumables and spares;
- an increase of $3.1 million for 2011 due to planned crew and manning wage increases; and
- an increase of $1.9 million for 2011 due to the acquisition of the *Piranema Spirit* ;

partially offset by

- a decrease of $3.9 million for 2011 due to a planned maintenance shutdown for 13 days on the *Petrojarl Varg* in the third quarter of 2010.

Depreciation and Amortization Expense. Depreciation and amortization expense increased for 2011 from 2010, primarily due to capital upgrades on the *Rio das Ostras* for the Aruana field in the first quarter of 2011 and the acquisition of the *Piranema Spirit* in late 2011.

Conventional Tanker Segment

As at December 31, 2011, we owned 100% interests in ten Aframax conventional crude oil tankers, six of which operate under fixed-rate time charters with Teekay Corporation, two which operate in the spot tanker market as from December 2011, and two vessels, which have additional equipment for lightering, which operate under fixed-rate bareboat charters with Skaugen PetroTrans, Teekay Corporation's 50% owned joint venture. The analysis below excludes the results of five tankers as they are determined to be discontinued operations.

The following table presents our conventional tanker segment's operating results for 2011 and 2010, and compares its net revenues (which is a non-GAAP financial measure) for 2011 and 2010, to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our conventional tanker segment. The table below excludes the results of five tankers as they are determined to be discontinued operations.

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Year Ended December 31, 2011	2010	% Change
Revenues	63,638	54,967	15.8
Voyage expenses	9,125	8,160	11.8
Net revenues	54,513	46,807	16.5
Vessel operating expenses	10,887	10,424	4.4
Depreciation and amortization	11,341	12,042	(5.8)
General and administrative (1)	2,809	2,479	13.3
Income from vessel operations	29,476	21,862	34.8
Calendar-Ship-Days			
Owned Vessels	2,190	2,190	—

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the conventional tanker segment based on estimated use of corporate resources).

Net Revenues. Net revenues increased for 2011 from 2010, primarily due to:

- an increase of $4.1 million due to a decrease in the number of off-hire days from scheduled dry dockings in 2011 compared to 2010; and
- a net increase of $3.3 million in net bunker profits for 2011, due to an increase in bunker index prices compared to 2010, decreased off-hire days and lower bunker consumption due to higher idle days.

FSO Segment

Our FSO fleet consists of five vessels that operate under fixed-rate time charters or fixed-rate bareboat charters. We have 100% ownership interests in these units. FSO units provide an on-site storage solution to oil field installations that have no oil storage facilities or that require supplemental storage. Our revenues and vessel operating expenses for the FSO segment are affected by fluctuations in currency exchange rates, as a significant component of revenues are earned and vessel operating expenses are incurred in Norwegian Kroner and Australian Dollars for certain vessels. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner and Australian Dollar may result in significant decreases or increases, respectively, in our revenues and decreases or increases, respectively, in vessel operating expenses.

The following table presents our FSO segment's operating results for 2011 and 2010, and compares its net revenues (which is a non-GAAP financial measure) for 2011 and 2010, to revenues, the most directly comparable GAAP financial measure, for the same periods. The following table also provides a summary of the changes in calendar-ship-days for our FSO segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Year Ended December 31, 2011	2010	% Change
Revenues	62,731	74,298	(15.6)
Voyage expenses	1,388	888	56.3
Net revenues	61,343	73,410	(16.4)
Vessel operating expenses	30,470	35,214	(13.5)
Depreciation and amortization	12,009	16,262	(26.2)
General and administrative (1)	3,779	3,799	(0.5)
Write down of vessels	8,769	—	100.0
Restructuring charge	2,697	—	100.0
Income from vessel operations	3,619	18,135	(80.0)
Calendar-Ship-Days			
Owned Vessels	1,901	2,190	(13.2)

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the FSO segment based on estimated use of corporate resources).

We acquired the *Falcon Spirit* FSO unit from Teekay Corporation in April 2010. However, as a result of the inclusion of the Dropdown Predecessor, the *Falcon Spirit* has been included for accounting purposes in our results as if it was acquired on December 15, 2009, when the vessel began operations under the ownership of Teekay Corporation. Please read "Items You Should Consider When Evaluating Our Results of Operations – Our financial results reflect the results of the interests in vessels acquired from Teekay Corporation for all periods the vessels were under common control."

On March 18, 2011, we sold one of our FSO units, the *Karratha Spirit* , for proceeds of $5.1 million, resulting in a loss of $0.2 million.

Net Revenues. Net revenues decreased for 2011 from 2010, primarily due to:

- a decrease of $11.7 million due to lower revenues related to the sale of the *Karratha Spirit* in March 2011;
- a decrease of $4.2 million due to a lower charter rate on the *Navion Saga* in accordance with the charter contract that took effect in the second quarter of 2010; and
- a decrease of $0.9 million due to a one-time reimbursement from a customer for certain crewing costs in 2010;

partially offset by

- an increase of $3.5 million due to foreign currency exchange differences in 2011 as compared 2010; and
- an increase of $1.1 million due to a higher charter rate on the *Dampier Spirit* in 2011 as compared to 2010.

Vessel Operating Expenses . Vessel operating expenses decreased for 2011 from 2010, primarily due to:

- a decrease of $8.8 million related to the sale of the *Karratha Spirit* in March 2011;

partially offset by

- an increase of $2.6 million due to the weakening of the U.S. Dollar against the Australian Dollar as compared to 2010; and
- an increase of $1.8 million due to an increase in crew and manning costs in 2011 as compared to 2010 resulting primarily from a planned increase in wages.

Depreciation and amortization. Depreciation decreased for 2011 from 2010, primarily due to:

- a decrease of $2.6 million as the costs relating to the conversion of the *Navion Saga* from a shuttle tanker to an FSO unit were fully depreciated at the end of the fixed term of its contract in April 2010; and
- a decrease of $1.5 million related to the sale of the *Karratha Spirit* in March 2011.

Write down of vessels. Write down of vessels was $8.8 million for 2011. We determined the *Navion Saga* was impaired mainly due to escalating dry-dock costs and increased operating costs. We wrote down the carrying value of the vessel to fair value, which is its estimated sales price.

Restructuring charge. Restructuring charges for 2011 were incurred in connection with the termination of employment for certain of the crew members of the *Karratha Spirit* following the sale of the vessel in March 2011.

Other Operating Results

General and Administrative Expenses. General and administrative expenses increased to $71.5 million for 2011, from $61.2 million for 2010, mainly relating to an increase in management fees payable to subsidiaries of Teekay Corporation for services rendered to us due to increases in business development costs supporting our direct tenders, due to a success fee relating to the acquisition of the *Piranema Spirit* and a one-time management fee charged to us by Teekay Corporation associated with the portion of stock-based compensation grants of Teekay Corporation's former Chief Executive Officer that had not yet vested prior to the date of his retirement on March 31, 2011, partially offset by an increase in realized and unrealized gains on foreign currency forward contracts that have been designated as hedges for accounting purposes.

Interest Expense. Interest expense, which excludes realized and unrealized gains and losses from interest rate swaps, decreased to $36.2 million for 2011, from $36.6 million for 2010, primarily due to:

- a decrease of $4.8 million during 2011, mainly from lower debt balances relating to the *Falcon Spirit* FSO unit and the *Rio das Ostras* FPSO unit (including the Dropdown Predecessor); and
- a decrease of $4.6 million related to scheduled repayments and prepayments of debt during 2011 and 2010.

partially offset by

- an increase of $7.9 million from the issuance of the NOK 600 million senior unsecured bonds in November 2010.

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Realized and Unrealized (Losses) Gains on Derivatives . Net realized and unrealized losses on non-designated derivatives were ($159.7) million for 2011, compared to ($55.7) million for 2010.

During 2011 and 2010, we had interest rate swap agreements with aggregate average outstanding notional amounts of approximately $1.6 billion and $1.4 billion, respectively, with average fixed rates of approximately 4.3% for both years. Short-term variable benchmark interest rates during these periods were generally less than 1.0% and, as such, we incurred realized losses of $58.5 million and $49.2 million, respectively, during 2011 and 2010 under the interest rate swap agreements.

As a result of significant decreases in long-term benchmark interest rates in 2011, we recognized unrealized losses of $100.3 million in 2011. Long-term benchmark interest rates declined in 2010, causing us to recognize unrealized losses of $10.4 million in 2010. Please see Item 5 – Operating and Financial Review and Prospects: Valuation of Derivative Instruments, which explains how our derivative instruments are valued, including the significant factors and uncertainties in determining the estimated fair value and why changes in these factors result in material variances in realized and unrealized (losses) gain on derivative instruments.

Foreign Currency Exchange Gains (Losses). Foreign currency exchange gains were $1.5 million for 2011, compared to $0.9 million for 2010. Our foreign currency exchange losses and gains, substantially all of which are unrealized, are due primarily to the relevant period-end revaluation of Norwegian Kroner-denominated monetary assets and liabilities for financial reporting purposes. Gains reflect a stronger U.S. Dollar against the Norwegian Kroner on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses reflect a weaker U.S. Dollar against the Norwegian Kroner on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. For 2011, foreign currency exchange losses and gains include a realized gain of $2.9 million (2010 – $0.2 million) and an unrealized (loss) gain of ($1.6) million (2010 – $4.0 million) on the cross currency swap relating to the Norwegian bond.

Other Income. Other income was $3.7 million for 2011, compared to $6.8 million for 2010, which was primarily comprised of leasing income from our volatile organic compound equipment. The leasing income is decreasing as the contracts near completion.

Income Tax Recovery (Expense). Income tax (expense) recovery was ($6.7) million for 2011, compared to $9.7 million for 2010. The income tax expense in 2011 was primarily due to current income taxes from the FPSO fleet. The income tax recovery in 2010 was primarily due to unrealized foreign exchange translation losses whereas in 2011 we took a full valuation allowance against the deferred tax asset relating to Norwegian tax losses carried forward which resulted in no income tax recovery in 2011.

Net (Loss) Income from Discontinued Operations. In 2011, we sold the *Scotia Spirit* . In 2012, we sold the *Hamane Spirit* , *Torben Spirit* and *Luzon Spirit* . We also agreed to sell the *Leyte Spirit* , and such vessel is classified as held for sale at December 31, 2012. These operations prior to December 31, 2012 were reported within the conventional tanker segment. Net (loss) income from discontinued operations was ($23.8) million for 2011 and $16.6 million for 2010. Net loss from discontinued operations increased for 2011 from 2010, primarily due to:

- a $54.1 million in the write down of five vessels in 2011; and
- an decrease of $1.6 million in net revenues due to the sale of the *Scotia Spirit* ;

partially offset by

- an increase of $5.7 million in net revenues due to an increase in net bunker profits. Bunker profits increased due to an increase in bunker index prices compared to 2010, decreased off-hire days and lower bunker consumption due to higher idle days;
- a decrease of $4.3 million in depreciation and amortization primarily due the sale of the *Scotia Spirit* and the completion of dry-docking amortization on vessels expected to be sold; and
- an increase of $3.8 million in net revenues due to a decrease in the number of off-hire days from scheduled dry dockings in 2011 compared to 2010.

Liquidity and Capital Resources

Liquidity and Cash Needs

Our business model is to employ our vessels on fixed-rate contracts with major oil companies, typically with original terms between three to ten years. The operating cash flow our vessels generate each quarter, excluding a reserve for maintenance capital expenditures, is generally paid out to our unitholders within approximately 45 days after the end of each quarter. Our primary short-term liquidity needs are to pay these quarterly distributions on our outstanding units, payment of operating expenses, dry docking expenditures, debt service costs and to fund general working capital requirements. We anticipate that our primary sources of funds for our short-term liquidity needs will be cash flows from operations. We believe that our existing cash and cash equivalents and undrawn long-term borrowings, in addition to all other sources of cash including cash from operations, will be sufficient to meet our existing liquidity needs for at least the next 12 months.

Our long-term liquidity needs primarily relate to expansion and maintenance capital expenditures and debt repayment. Expansion capital expenditures primarily represent the purchase or construction of vessels to the extent the expenditures increase the operating capacity or revenue generated by our fleet, while maintenance capital expenditures primarily consist of dry docking expenditures and expenditures to replace vessels in order to maintain the operating capacity or revenue generated by our fleet. Our primary sources of funds for our long-term liquidity needs are from cash from operations, long-term bank borrowings and other debt or equity financings, or a combination thereof. Consequently, our ability to continue to expand the size of our fleet is dependent upon our ability to obtain long-term bank borrowings and other debt, as well as raising equity.

Our revolving credit facilities and term loans are described in Item 18 – Financial Statements: Note 8 – Long-Term Debt. They contain covenants and other restrictions typical of debt financing secured by vessels that restrict the ship-owning subsidiaries from incurring or guaranteeing indebtedness; changing ownership or structure, including mergers, consolidations, liquidations and dissolutions; making dividends or distributions if we are in default; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; or entering into a new line of business. Certain of our revolving credit facilities and term loans include financial covenants. Should we not meet these financial covenants, the lender may accelerate the repayment of the revolving credit facilities and term loans, thus having an impact on our short-term liquidity requirements. As at December 31, 2012, we and our affiliates were in compliance with all covenants relating to the revolving credit facilities and term loans.

As at December 31, 2012, our total cash and cash equivalents were $206.3 million, compared to $179.9 million at December 31, 2011. Our total liquidity, including cash, cash equivalents and undrawn long-term borrowings, was $419.8 million as at December 31, 2012, compared to $202.3 million as at December 31, 2011. The increase in liquidity of $217.5 million is primarily the result of the issuance of NOK 600 million ($101.4 million) senior unsecured bonds in January 2012, the drawdown of a $130 million debt facility secured by the *Piranema Spirit* FPSO unit in February 2012, the $45.9 million private placement of common units in July 2012 and the $219.5 million public offering of common units in September 2012, partially offset by a reduction in the amount available for drawdown of our revolving credit facilities and the BG shuttle tanker installments of $78.1 million.

In February 2013, we made a partial prepayment of $150.0 million to Teekay Corporation in connection with the acquisition of the *Voyageur Spirit* FPSO unit. Teekay Corporation will pay us interest at a rate of LIBOR plus a margin of 4.25% on the prepaid funds. Teekay Corporation is obligated to repay us the full amount of prepaid funds, plus accrued interest, if the acquisition does not close before April 30, 2013.

As at December 31, 2012, we had a working capital deficit of $67.7 million, compared to a working capital deficit of $80.5 million at December 31, 2011. As at December 31, 2012, the working capital deficit included $128.8 million relating to revolving credit facilities and $38.0 million relating to NOK 600 million senior unsecured bonds. The current portion of long-term debt increased mainly due to a reduction in the maximum allowable amount outstanding under our revolving credit facilities in 2012 due to scheduled reductions. We expect to manage our working capital deficit primarily with net operating cash flow generated in 2013, with proceeds from the NOK 1,300 million senior unsecured bonds issued in January, 2013, of which NOK 388.5 million of the existing NOK 600 million bonds that mature in 2013 were repurchased and with new and existing undrawn revolving credit facilities and term loans.

The passage of any climate control legislation or other regulatory initiatives that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business, which we cannot predict with certainty at this time. Such regulatory measures could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. In addition, increased regulation of greenhouse gases may, in the long term, lead to reduced demand for oil and reduced demand for our services.

Cash Flows. The following table summarizes our sources and uses of cash for the periods presented:

	Year Ended December 31,		
(in thousands of U.S. dollars)	2012	2011	2010
Net cash flow from operating activities	267,494	254,162	286,585
Net cash flow (used for) from financing activities	(206,007)	35,318	(211,600)
Net cash flow used for investing activities	(35,082)	(276,029)	(17,909)

Operating Cash Flows. Net cash flow from operating activities increased to $267.5 million for 2012, from $254.1 million in 2011, due primarily to a decrease in time-charter hire expenses of $13.9 million, an increase in the current tax recovery of $8.7 million, a decrease in dry docking expenditures of $7.3 million, a decrease in restructuring costs of $2.8 million, and an increase in net revenues of $2.7 million, partially offset by an increase in net interest expense of $9.9 million, a net decrease in changes to non-cash working capital items of $6.2 million, an increase in general and administrative expenses of $2.4 million, a decrease in other income of $2.0 million and an increase in realized losses on non-designated derivative instruments of $1.9 million. Details of the changes for the majority of these items are described in the Results of Operations – Year Ended December 31, 2012 versus Year Ended December 31, 2011. In summary, we benefited from a full year of the *Piranema Spirit* FPSO unit, partially offset by vessel sales and the terminations of time-charter-out contracts within our shuttle and conventional fleets.

The $7.3 million decrease in dry docking costs for 2012 compared to 2011 is primarily due to a decrease in the number of vessel dry dockings for 2012 compared to 2011.

The $6.2 million net decrease in the change in working capital for 2012 compared to 2011 is primarily due to:

- a $32.2 million decrease due to the timing of settlements with related parties;

partially offset by

- a $12.2 million increase from the changes in the balance of prepaid expenses year over year due to a higher level of bunker inventory held at December 31, 2011 compared to 2012 and 2010;
- a $8.8 million increase from the changes in the balances of payables and accruals year over year due to higher advances received from our customers in 2010 compared to 2011 and 2012; and

- a $5.0 million increase from the changes in the balance of accounts receivable year over year due to more timely receipts from customers in the FSO fleet in 2010 compared to 2011 and 2012, partially offset by higher revenues earned in our FPSO fleet in 2012.

Net cash flow from operating activities decreased to $254.2 million for 2011 from $286.6 million in 2010, due primarily to a net decrease in changes to non-cash working capital items of $45.8 million and an increase in operating expenses of $25.8 million, partially offset by increased net revenues of $47.7 million.

The $45.8 million decrease in the change in working capital from $34.5 million in 2010 to ($11.3) million for 2011 is primarily due to a $32.2 million decrease in the balance of payables and accruals at December 31, 2011 relative to December 31, 2010 compared to an increase in the balance of payables and accruals in the prior year, mainly as a result of the *Rio das Ostras'* upgrade initiated in late 2010 and completed in mid-2011 and higher advances received from our customers in 2010; a $27.0 million increase in the balance of accounts receivable at December 31, 2011 relative to December 31, 2010 compared to a decrease in the balance of accounts receivable in the prior year, mainly as a result of more timely receipts from customers in the shuttle and FPSO fleet in 2010; and $11.8 million relating to changes in the balance of prepaid expenses mainly as a result of the level of bunker inventory held at year-end; partially offset by $25.3 million relating to the timing of intercompany settlements with related parties.

All other changes to cash flows from operating activities are described above in the Results of Operations.

Financing Cash Flows.

In order to partially finance new acquisitions, we periodically issue common units to the public and to institutional investors. We raised net proceeds (including our general partner's 2% proportionate capital contribution) of $257.2 million in 2012, $419.9 million in 2011 and $401.5 million in 2010. We paid finance shipyard installments for the four Suezmax newbuilding shuttle tankers in 2012 and 2011. We repaid a portion of our outstanding debt under certain of our revolving credit facilities in 2012 and 2010. We purchased the *Piranema Spirit* FPSO unit and acquired the remaining 49% interest in Teekay Offshore Operating L.P. in 2011. We purchased the *Falcon Spirit* FSO unit and repaid the remaining $60.0 million of the Teekay Corporation vendor financing related to the purchase of the *Petrojarl Varg* FPSO unit in 2011.

We use our revolving credit facilities to finance capital expenditures and for general partnership purposes. Occasionally we will do this until longer-term financing is obtained, at which time we typically use all or a portion of the proceeds from the longer-term financings to prepay outstanding amounts under the revolving credit facilities. Our proceeds (outflow) from the issuance of long-term debt, net of debt issuance costs and prepayments of long-term debt were ($131.4) million in 2012, $331.3 million in 2011, and ($215.9) million in 2010. Net proceeds from the issuance of long-term debt declined in 2012 and 2010 as a result of less cash required for capital expenditures. In 2011, we issued long-term debt to finance a portion of the acquisition of the *Falcon Spirit*, *Rio Das Ostras, Amundsen Spirit* and the *Nansen Spirit* from Teekay Corporation.

We actively manage the maturity profile of our outstanding financing arrangements. Our scheduled repayments of long-term debt were relatively stable at $146.2 million in 2012, $110.7 million in 2011, and $132.7 million in 2010.

Cash distributions paid by our subsidiaries to non-controlling interests totaled $8.8 million in 2012, $37.0 million in 2011 and $77.2 million in 2010. Cash distributions paid by us to our unitholders and our general partner totaled $160.9 million in 2012, $129.3 million in 2011 and $85.1 million in 2010. The decrease in distribution to non-controlling interests and increase in distributions to our unitholders were mainly attributed to our acquisition from Teekay Corporation of the remaining 49% interest in OPCO in early March 2011. Subsequent to December 31, 2012, cash distributions relating to the fourth quarter of 2012 were declared and paid on February 14, 2013 and totaled $44.2 million.

Investing Cash Flows . During 2012, net cash flow used in investing activities was $35.1 million, primarily relating to expenditures for vessels and equipment, including additional installment payments of $78.1 million on the four newbuilding BG shuttle tankers and $9.3 million on various other vessel additions, partially offset by $35.2 million in proceeds from the sale of five vessels and scheduled lease payments of $17.1 million received from the leasing of certain of our volatile organic compound emissions equipment and direct financing lease assets.

During 2011, net cash flow used in investing activities was $276.0 million, primarily relating to the purchase of the *Piranema Spirit* , expenditures on vessels and equipment relating to the four Suezmax newbuilding shuttle tankers, the *Peary Spirit* newbuilding and upgrades on the *Rio das Ostras* , partially offset by scheduled lease payments of $20.9 million received from the leasing of our volatile organic compound emissions equipment and direct financing lease assets and the proceeds of $13.4 million received on the sale of vessels and equipment relating to the *Scotia Spirit* and the *Karratha Spirit* .

During 2010, net cash flow used in investing activities was $17.9 million, primarily relating to expenditure on vessels and equipment relating to the advances on the *Peary Spirit* newbuilding, partially offset by scheduled lease payments of $22.7 million received from the leasing of our volatile organic compound emissions equipment and direct financing lease assets.

Contractual Obligations and Contingencies

The following table summarizes our long-term contractual obligations as at December 31, 2012:

	Total	2013	2014 and 2015	2016 and 2017	Beyond 2017
		(in millions of U.S. Dollars)			
U.S. Dollar-Denominated Obligations					
Long-term debt [(1)]	1,554.0	210.4	838.3	265.5	239.8
Chartered-in vessels (operating leases)	79.9	46.2	33.7	—	—
Newbuilding installments [(2)]	323.3	323.3	—	—	—

Purchase of Voyageur Spirit FPSO unit	540.0	540.0	—	—	—
Purchase of HiLoad DP unit [4]	55.0	55.0	—	—	—
Norwegian Kroner-Denominated Obligations					
Long-term debt [5]	215.6	38.0	—	177.6	—
Total contractual obligations	2,767.8	1,212.9	872.0	443.1	239.8

(1) Excludes expected interest payments of $18.0 million (2013), $18.8 million (2014 and 2015), $9.3 million (2016 and 2017) and $3.2 million (beyond 2017). Expected interest payments are based on LIBOR, plus margins which ranged between 0.30% and 3.25% as at December 31, 2012. The expected interest payments do not reflect the effect or related interest rate swaps that we have used as an economic hedge of certain of our variable rate debt.
(2) Excludes capitalized interest and miscellaneous construction costs. Please read Item 18 – Financial Statements: Note 15(c) – Commitments and Contingencies.
(3) The purchase is subject to obtaining financing and the commencement of operations under a long-term charter with E.ON. We expect to finance the acquisition through the assumption of a new $330 million debt facility secured by the asset, a portion of the proceeds from our public offering completed in September 2012 and a $40 million equity private placement of common units to Teekay Corporation. Please read Item 18 – Financial Statements: Note 15(e) – Commitments and Contingencies.
(4) Includes modification costs. The purchase is subject to finalizing a ten-year time-charter contract with Petrobras. Please read Item 18 – Financial Statements: Note 15(f) – Commitments and Contingencies.
(5) Excludes expected interest payments of $15.2 million (2013), $25.8 million (2014 and 2015), and $9.2 million (2016 and 2017). Expected interest payments are based on NIBOR, plus margins which ranged between 4.75% and 5.75% as at December 31, 2012. The expected interest payments do not reflect the effect or related interest rate swaps and cross currency swaps that we have used as an economic hedge of certain of our variable rate debt. The table excludes the NOK bonds issued and repurchased subsequent to December 31, 2012.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. Management of our general partner reviews our accounting policies, assumptions, estimates and judgments on a regular basis to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results will differ from our assumptions and estimates, and such differences could be material. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For a further description of our material accounting policies. Please read Item 18 – Financial Statements: Note 1 – Summary of Significant Accounting Policies.

Revenue Recognition

Description. We generate a majority of our revenues from voyages servicing contracts of affreightment, time charters, bareboat charters, and FPSO service contracts and, to a lesser extent, spot voyages. Within the shipping industry, the two methods used to account for revenues and expenses are the percentage of completion and the completed voyage methods. Most shipping companies, including us, use the percentage of completion method. For each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In other words, revenues are recognized ratably either from the beginning of when product is loaded for one voyage to when it is loaded for another voyage, or from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. We recognize revenues from time charters and bareboat charters daily over the term of the charter as the applicable vessel operates under the charter. Revenues from FPSO service contracts are recognized as service is performed. In all cases we do not recognize revenues during days that a vessel is off hire.

Judgments and Uncertainties. In applying the percentage of completion method, we believe that in most cases the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, we generally have information about the next load port and expected discharge port, whereas at the time of loading we are normally less certain what the next load port will be. We use this method of revenue recognition for all spot voyages. In the case of our shuttle tankers servicing contracts of affreightment, a voyage commences with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. In all cases we do not begin recognizing revenue for any of our vessels until a charter has been agreed to by the customer and us, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Effect if Actual Results Differ from Assumptions. If actual results are not consistent with our estimates in applying the percentage of completion method, our revenues could be overstated or understated for any given period by the amount of such difference.

Vessel Lives and Impairment

Description. The carrying value of each of our vessels represents its original cost at the time of delivery or purchase less depreciation and impairment charges. We depreciate the original cost, less an estimated residual value, of our vessels on a straight-line basis over each vessel's estimated useful life. The carrying values of our vessels may not represent their market value at any point in time because the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature.

We review vessels and equipment for impairment whenever events or circumstances indicate the carrying value of an asset, including the carrying value of the charter contract, if any, under which the vessel is employed, may not be recoverable. This occurs when the asset's carrying value is greater than the future undiscounted cash flows the asset is expected to generate over its remaining useful life. For a vessel under charter, the discounted cash flows from that vessel may exceed its market value, as market values may assume the vessel is not employed on an existing charter. If the estimated future undiscounted cash flows of an asset exceeds the asset's carrying value, no impairment is recognized even though the fair value of the asset may be lower than its carrying value. If the estimated future undiscounted cash flows of an asset is less than the asset's carrying value and the fair value of the asset is less than its carrying value, the asset is written down to its fair value. Fair value is calculated as the net present value of estimated future cash flows, which, in certain circumstances, will approximate the estimated market value of the vessel.

Our business model is to employ our vessels on fixed-rate contracts with major oil companies. These contracts generally have original terms between three to ten years in length. Consequently, while the market value of a vessel may decline below its carrying value, the carrying value of a vessel may still be recoverable based on the future undiscounted cash flows the vessel is expected to obtain from servicing its existing and future contracts.

The following table presents by segment the aggregate market values and carrying values of certain of our vessels that we have determined have a market value that is less than their carrying value as of December 31, 2012. Specifically, the following table reflects all such vessels, except those operating on contracts where the remaining term is significant and the estimated future undiscounted cash flows relating to such contracts is sufficiently greater than the carrying value of the vessels such that we consider it unlikely an impairment would be recognized in the following year. Consequently, the vessels included in the following table generally include those vessels employed on single-voyage, or spot charters, as well as those vessels near the end of existing charters or other operational contracts. While the market values of these vessels are below their carrying values, no impairment has been recognized on any of these vessels as the estimated future undiscounted cash flows relating to such vessels are greater than their carrying values.

We would consider the vessels reflected in the following table to be at a higher risk of future impairment. The table is disaggregated for vessels which have estimated future undiscounted cash flows that are marginally or significantly greater than their respective carrying values. Vessels with estimated future cash flows significantly greater than their respective carrying values would not necessarily represent vessels that would likely be impaired in the next 12 months. The recognition of an impairment in the future for those vessels may primarily depend upon our deciding to dispose of the vessel instead of continuing to operate it. In deciding whether to dispose of a vessel, we determine whether it is economically preferable to sell the vessel or continue to operate it. This assessment includes an estimate of the net proceeds expected to be received if the vessel is sold in its existing condition compared to the present value of the vessel's estimated future revenue, net of operating costs. Such estimates are based on the terms of the existing charter, charter market outlook and estimated operating costs, given a vessel's type, condition and age. In addition, we typically do not dispose of a vessel that is servicing an existing customer contract. The recognition of an impairment in the future may be more likely for vessels that have estimated future undiscounted cash flow only marginally greater than their respective carrying value.

(in thousands of U.S. dollars, except number of vessels) Reportable Segment	Number of Vessels	Market Values (1) $	Carrying Values $
Shuttle Tanker Segment - marginally greater	5 (2)	102,800	185,517
Shuttle Tanker Segment - significantly greater	2 (2)	40,000	57,720
FSO Segment - marginally greater	1	7,000	19,628
FSO Segment - significantly greater	3	20,000	30,391
Conventional Tanker Segment - marginally greater	2	14,000	33,660

(1) Market values are determined using reference to second-hand market comparable values or using a depreciated replacement cost approach. Since vessel values can be volatile, our estimates of market value may not be indicative of either the current or future prices we could obtain if we sold any of the vessels. In addition, the determination of estimated market values for our shuttle tankers and FSO units may involve considerable judgment, given the illiquidity of the second-hand markets for these types of vessels.

The estimated market values for the FSO units in the table above were based on second-hand market comparable values for similar vessels. Given the advanced age of these vessels, the estimated market values substantially reflect the price of steel and amount of steel in the vessel. The estimated market values for the shuttle tankers were based on second-hand market comparable values for conventional tankers of similar age and size, adjusted for shuttle tanker specific functionality.

(2) Includes four vessels in the shuttle tanker segment which are less than 15 years old. We expect that these vessels will generate sufficient cash flow over their remaining useful lives to exceed the respective carrying values of such vessels.

Judgments and Uncertainties . Depreciation is calculated using an estimated useful life of 20 to 25 years for conventional and shuttle tankers and 20 to 25 years for FPSO units, commencing at the date the vessel was originally delivered from the shipyard. FSO units are depreciated over the term of the contract. However, the actual life of a vessel may be different than the estimated useful life, with a shorter actual useful life resulting in an increase in the quarterly depreciation and potentially resulting in an impairment loss. The estimated useful life of our vessels takes into account design life, commercial considerations and regulatory restrictions. Our estimates of future cash flows involve assumptions about future charter rates, vessel utilization, operating expenses, dry-docking expenditures, vessel residual values and the remaining estimated life of our vessels. Our estimated charter rates are based on rates under existing vessel contracts and market rates at which we expect we can re-charter our vessels. Our estimates of vessel utilization, including estimated off-hire time and the estimated amount of time our shuttle tankers may spend operating in the spot tanker market when not being used in their capacity as shuttle tankers, are based on historical experience and our projections of the number of future shuttle tanker voyages. Our estimates of operating expenses and dry-docking expenditures are based on historical operating and drydocking costs and our expectations of future inflation and operating requirements. Vessel residual values are a product of a vessel's lightweight tonnage and an estimated scrap rate. The remaining estimated lives of our vessels used in our estimates of future cash flows are consistent with those used in the calculation of depreciation. Effective January 1, 2012, we reduced the estimated useful life of six older shuttle tankers from 25 years to 20 years. As a result of the change in useful life, we increased the estimate of the residual value of these vessels to reflect the more recent average scrap prices.

Certain assumptions relating to our estimates of future cash flows are more predictable by their nature in our experience, including estimated revenue under existing contract terms, on-going operating costs and remaining vessel life. Certain assumptions relating to our estimates of future cash flows require more discretion and are inherently less predictable, such as future charter rates beyond the firm period of existing contracts and vessel residual values, due to factors such as the volatility in vessel charter rates and vessel values. We believe that the assumptions used to estimate future cash flows of our vessels are reasonable at the time they are made. We can make no assurances, however, as to whether our estimates of future cash flows, particularly future vessel charter rates or vessel values, will be accurate.

Effect if Actual Results Differ from Assumptions . If we conclude that a vessel or equipment is impaired, we recognize a loss in an amount equal to the excess of the carrying value of the asset over its fair value at the date of impairment. The written-down amount becomes the new lower cost basis and will result in a lower annual depreciation expense than for periods before the vessel impairment.

Dry docking

Description. We dry dock each of our shuttle tankers and conventional oil tankers periodically for inspection, repairs and maintenance and for any modifications to comply with industry certification or governmental requirements. We may dry dock FSO units if we desire to qualify them for shipping classification. We capitalize a substantial portion of the costs we incur during dry docking and amortize those costs on a straight-line basis over the estimated useful life of the dry dock. We immediately expense costs for routine repairs and maintenance performed during dry docking that do not improve or extend the useful lives of the assets.

Judgments and Uncertainties. Amortization of capitalized dry-dock expenditures requires us to estimate the period of the next dry docking or estimated useful life of dry-dock expenditures. While we typically dry dock each shuttle tanker and conventional oil tanker every two and a half to five years, we may dry dock the vessels at an earlier date.

Effect if Actual Results Differ from Assumptions. A change in our estimate of the useful life of a dry dock will have a direct effect on our annual amortization of dry-docking expenditures.

Goodwill and Intangible Assets

Description. We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as time-charter contracts, are being amortized over time. Our future operating performance will be affected by the amortization of intangible assets and potential impairment charges related to goodwill or intangible assets. Accordingly, the allocation of the purchase price to intangible assets and goodwill may significantly affect our future operating results. Goodwill and indefinite-lived assets are not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. The process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis.

Judgments and Uncertainties **.** The allocation of the purchase price of acquired companies to intangible assets and goodwill requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows. In addition, the process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis. The fair value of our reporting units was estimated based on discounted expected future cash flows using a weighted-average cost of capital rate. The estimates and assumptions regarding expected cash flows and the appropriate discount rates require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions.

As of December 31, 2012, the shuttle segment had goodwill attributable to it. As of the date of this filing, we do not believe that there is a reasonable possibility that the goodwill attributable to this reporting unit might be impaired within the next year. However, certain factors that impact this assessment are inherently difficult to forecast and as such we cannot provide any assurances that an impairment will or will not occur in the future. An assessment for impairment involves a number of assumptions and estimates that are based on factors that are beyond our control. These are discussed in more detail in the section entitled “Forward-Looking Statements.”

Amortization expense of intangible assets for 2012 and 2011 was $6.0 million and $7.1 million, respectively. If actual results are not consistent with our estimates used to value our intangible assets, we may be exposed to an impairment charge and a decrease in the annual amortization expense of our intangible assets. As at December 31, 2012 and 2011, the net book value of intangible assets was $15.5 million and $21.6 million, respectively.

Valuation of Derivative Instruments

Description. Our risk management policies permit the use of derivative financial instruments to manage interest rate and foreign exchange risk. Changes in fair value of derivative financial instruments that are not designated as cash flow hedges for accounting purposes are recognized in earnings.

Judgments and Uncertainties. A substantial majority of the fair value of our derivative instruments and the change in fair value of our derivative instruments from period to period result from our use of interest rate swap agreements. The fair value of our derivative instruments is the estimated amount that we would receive or pay to terminate the agreements in an arm’s length transaction under normal business conditions at the reporting date, taking into account current interest rates, foreign exchange rates and the current credit worthiness of ourselves and the swap counterparties. The estimated amount is the present value of estimated future cash flows, being equal to the difference between the benchmark interest rate and the fixed rate in the interest rate swap agreement, multiplied by the notional principal amount of the interest rate swap agreement at each interest reset date.

The fair value of our interest rate swap agreements at the end of each period is most significantly impacted by the interest rate implied by the benchmark interest rate yield curve, including its relative steepness. Interest rates have experienced significant volatility in recent years in both the short and long term. While the fair value of our interest rate swap agreements is typically more sensitive to changes in short-term rates, significant changes in the long-term benchmark interest rate also materially impact our interest rate swap agreements.

The fair value of our interest rate swap agreements is also impacted by changes in our specific credit risk included in the discount factor. We discount our interest rate swap agreements with reference to the credit default swap spreads of similarly rated global industrial companies and by considering any underlying collateral. The process of determining credit worthiness requires significant judgment in determining which source of credit risk information most closely matches our risk profile.

The benchmark interest rate yield curve and our specific credit risk are expected to vary over the life of the interest rate swap agreements. The larger the notional amount of the interest rate swap agreements outstanding and the longer the remaining duration of the interest rate swap agreements, the larger the impact of any variability in these factors will be on the fair value of our interest rate swaps. We economically hedge the interest rate exposure on a significant amount of our long-term debt and for long durations. As such, we have historically experienced, and we expect to continue to experience, material variations in the period-to-period fair value of our derivative instruments.

Effect if Actual Results Differ from Assumptions. Although we measure the fair value of our derivative instruments utilizing the inputs and assumptions described above, if we were to terminate the agreements at the reporting date, the amount we would pay or receive to terminate the derivative instruments may differ from our estimate of fair value. If the estimated fair value differs from the actual termination amount, an adjustment to the carrying amount of the applicable derivative asset or liability would be recognized in earnings for the current period. Such adjustments could be material. See Item 18 – Financial Statements: Note 13 – Derivative Instruments for the effects on the change in fair value of our derivative instruments on our consolidated statements of income (loss).

Taxes

Description . We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized.

Judgments and Uncertainties . The future realization of deferred tax assets depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period. This analysis requires, among other things, the use of estimates and projections in determining future reversals of temporary differences, forecasts of future profitability and evaluating potential tax-planning strategies.

Effect if Actual Results Differ from Assumptions. If we determined that we were able to realize a net deferred tax asset in the future, in excess of the net recorded amount, an adjustment to the deferred tax assets would typically increase our net income (or decrease our loss) in the period such determination was made. Likewise, if we determined that we were not able to realize all or a part of our deferred tax asset in the future, an adjustment to the deferred tax assets would typically decrease our net income (or increase our loss) in the period such determination was made. As at December 31, 2012, we had a valuation allowance of $135.1 million (2011 – $116.7 million).

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Management of Teekay Offshore Partners L.P.

Teekay Offshore GP L.L.C., our general partner, manages our operations and activities. Unitholders generally are not entitled to elect the directors of our general partner or directly or indirectly participate in our management or operation.

Our general partner owes a fiduciary duty to our unitholders. Our general partner is liable, as general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are expressly non-recourse to it. Whenever possible, our general partner intends to cause us to incur indebtedness or other obligations that are non-recourse to it.

The directors of our general partner oversee our operations. The day-to-day affairs of our business are managed by the officers of our general partner and key employees of certain of our controlled affiliates. Employees of certain subsidiaries of Teekay Corporation provide assistance to us pursuant to services agreements. Please see Item 7- Major Unitholders and Related Party transactions.

The Chief Executive Officer and Chief Financial Officer of our general partner, Peter Evensen, allocates his time between managing our business and affairs and the business and affairs of Teekay Corporation and its subsidiaries, including Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*) and Teekay Tankers Ltd. (NYSE: TNK) (or *Teekay Tankers*). Mr. Evensen is also the Chief Executive Officer and Chief Financial Officer of Teekay LNG's general partner, Teekay GP L.L.C. The amount of time Mr. Evensen allocates among our business and the businesses of Teekay Corporation and Teekay LNG varies from time to time depending on various circumstances and needs of the businesses, such as the relative levels of strategic activities of the businesses. We believe Mr. Evensen devotes sufficient time to our business and affairs as is necessary for their proper conduct.

Officers of our general partner and those individuals providing services to us or our subsidiaries may face a conflict regarding the allocation of their time between our business and the other business interests of Teekay Corporation or its other affiliates. Our general partner intends to seek to cause its officers to devote as much time to the management of our business and affairs as is necessary for the proper conduct of our business and affairs.

Directors and Executive Officers of Teekay Offshore GP L.L.C.

The following table provides information about the directors and executive officers of our general partner, Teekay Offshore GP L.L.C. Directors are elected for one-year terms. The business address of each of our directors and executive officers listed below is c/o 4th Floor, Belvedere

Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Ages of the directors are as of March 1, 2013.

Name	Age	Position
C. Sean Day	63	Chairman (1)
Peter Evensen	54	President, Chief Executive Officer, Chief Financial Officer and Director
Kenneth Hvid	44	Director
David L. Lemmon	70	Director (1) (2)
Carl Mikael L.L. von Mentzer	68	Director (1) (2)
John J. Peacock	69	Director (1) (2)
Michael Balaski	56	Vice President

(1) Member of Corporate Governance Committee.
(2) Member of Audit Committee and Conflicts Committee.

Certain biographical information about each of these individuals is set forth below.

C. Sean Day has served as Chairman of Teekay Offshore GP L.L.C. since it was formed in August 2006. Mr. Day has also served as Chairman of the Board of Teekay Corporation since September 1999. He also serves as Chairman of Teekay GP L.L.C. and Teekay Tankers Ltd. From 1989 to 1999, he was President and Chief Executive Officer of Navios Corporation, a large bulk shipping company based in Stamford, Connecticut. Prior to that, Mr. Day held a number of senior management positions in the shipping and finance industry. He is currently serving as a Director of Kirby Corporation and Chairman of Compass Diversified Holdings. Mr. Day is engaged as a consultant to Kattegat Limited, the parent company of Teekay Corporation's largest shareholder, to oversee its investments, including that in the Teekay Corporation group of companies.

Peter Evensen has served as Chief Executive Officer, Chief Financial Officer and a Director of Teekay Offshore GP L.L.C. since August 2006. On April 1, 2011, Mr. Evensen became President and Chief Executive Officer of Teekay Corporation and also became a Director of Teekay Corporation. He also serves as Chief Executive Officer, Chief Financial Officer and a Director of Teekay GP L.L.C. and as a Director of Teekay Tankers Ltd. He was appointed Executive Vice President and Chief Strategy Officer of Teekay Corporation in 2006. Mr. Evensen has over 25 years of experience in banking and shipping finance. Prior to joining Teekay Corporation, Mr. Evensen was Managing Director and Head of Global Shipping at J.P. Morgan Securities Inc., and worked in other senior positions for its predecessor firms. His international industry experience includes positions in New York, London and Oslo.

Kenneth Hvid has served as a Director of Teekay Offshore GP L.L.C. and Teekay GP L.L.C. and Chief Strategy Officer and Executive Vice President of Teekay Corporation since April 2011. He joined Teekay Corporation in October 2000 and was responsible for leading its global procurement activities until he was promoted in 2004 to Senior Vice President, Teekay Gas Services. During that time, Mr. Hvid was involved in leading Teekay Corporation through its entry and growth in the liquefied natural gas business. He held that position until the beginning of 2006, when he was appointed President of the Teekay Navion Shuttle Tankers and Offshore division of Teekay Corporation. In that role, he was responsible for Teekay Corporation's global shuttle tanker business as well as initiatives in the FSO business and related offshore activities. Mr. Hvid has 24 years of global shipping experience, 12 of which were spent with A.P. Moller in Copenhagen, San Francisco and Hong Kong. In 2007, Mr. Hvid joined the board of Gard P.& I. (Bermuda) Ltd.

David L. Lemmon has served as a Director of Teekay Offshore GP L.L.C since December 2006. Mr. Lemmon also currently serves on the Board of Directors of Kirby Corporation, a position he has held since April 2006, and also serves on the Board of Deltic Timber Corporation, a position he has held since February 2007. Mr. Lemmon was President and Chief Executive Officer of Colonial Pipeline Company from 1997 until his retirement in March 2006. Prior to joining Colonial Pipeline Company, he served as President of Amoco Pipeline Company for seven years, as part of a career with Amoco Corporation that spanned 30 years. Mr. Lemmon has served as a member of the Board of Directors of the American Petroleum Institute, the National Council of Economic Education and the Battelle Energy Advisory Committee. He has served as a member of the Northwestern University Business Advisory Committee and as a guest faculty member at Northwestern University's Kellogg Graduate School of Management.

Carl Mikael L.L. von Mentzer has served as a Director of Teekay Offshore GP L.L.C. since December 2006. Since 1998, Mr. von Mentzer has served as a non-executive director of Concordia Maritime AB in Gothenburg, Sweden and since 2002, has served as Deputy Chairman of its Board of Directors. Prior to this, Mr. von Mentzer served in executive positions with various shipping and offshore service companies, including Gotaverken Arendal AB and Safe Partners AB in Gothenburg, Sweden and OAG Ltd. in Aberdeen, Scotland. He has also previously served as a non-executive director for Northern Offshore Ltd., in Oslo, Norway, and GVA Consultants in Gothenburg, Sweden.

John J. Peacock has served as a Director of Teekay Offshore GP L.L.C. since December 2006. Mr. Peacock retired in February 2007 from Fednav Limited, a Canadian ocean-going, dry-bulk shipowning and chartering group. Joining as Fednav's Treasurer in 1979, he became Vice-President Finance in 1984 and joined the Board of Directors. In 1998, Mr. Peacock was appointed Executive Vice-President of Fednav and President and Chief Operating Officer of Fednav International Ltd., the Group's principal operating subsidiary. Though retired, he continues to serve as a Director. Mr. Peacock has over 40 years accounting experience, and prior to joining Fednav was a partner with Clarkson Gordon (now Ernst & Young) in Montreal, Canada. He also serves as Chair of the McGill University Health Centre Foundation.

Michael Balaski has served as Vice President of Teekay Offshore GP L.L.C. and Teekay GP L.L.C. since December 2011. In 2011, he retired as a partner in the Tax Services Group of PricewaterhouseCoopers LLP (or PwC) in Vancouver, Canada, where he was a member of the International Tax Group specializing in the international shipping sector. Mr. Balaski was a partner of PwC Canada for over ten years. During that time, Mr. Balaski worked closely with Teekay Corporation and its subsidiaries, spending much of his working time at Teekay Corporation's office.

B. Compensation

Executive Compensation

Peter Evensen, the Chief Executive Officer and Chief Financial Officer of our general partner is an employee of a subsidiary of Teekay Corporation. His compensation (other than any awards under the long-term incentive plan described below) is set and paid by the Teekay Corporation subsidiary, and we reimburse the Teekay Corporation subsidiary for time he spends on our partnership matters.

Michael Balaski, is the Vice President of our general partner. His compensation is set and paid by our general partner, and we reimburse the general partner for time he spends on our partnership matters.

During 2012, the aggregate amount for which we reimbursed Teekay Corporation for compensation expenses of the officers of the general partner incurred on our behalf was $1.1 million.

Compensation of Directors

Officers of our general partner or Teekay Corporation who also serve as directors of our general partner do not receive additional compensation for their service as directors. Each of our non-employee directors receives compensation for attending meetings of the Board of Directors, as well as committee meetings. Effective January 2012, each non-employee director receives a director fee of $50,000 for the year and common units with a value of approximately $50,000 for the year. The Chairman receives an annual fee of $87,500 and common units with a value of approximately $87,500 for the year. Members of the audit and conflicts committees, and the chair of the governance committees each receive a committee fee of $5,000 for the year, and the chairs of the audit committee and conflicts committee receive a fee of $10,000 for the year for serving in that role. In addition, each director is reimbursed for out-of-pocket expenses in connection with attending meetings of the Board of Directors or committees. Each director is fully indemnified by us for actions associated with being a director to the extent permitted under Marshall Islands law.

During 2012, the four non-employee directors received, in the aggregate, $282,500 in cash fees for their services as directors, plus reimbursement of their out-of-pocket expenses. In March 2012, our general partner’s Board of Directors granted to the four non-employee directors an aggregate of 8,260 common units. In March 2013, our general partner’s Board of Directors granted to the four non-employee directors an aggregate of 8,260 common units.

2006 Long-Term Incentive Plan

Our general partner adopted the Teekay Offshore Partners L.P. 2006 Long-Term Incentive Plan for employees and directors of and consultants to our general partner and employees and directors of and consultants to its affiliates, who perform services for us. The plan provides for the award of restricted units, phantom units, unit options, unit appreciation rights and other unit or cash-based awards. Other than the previously mentioned common units awarded to our general partner’s non-employee directors, we did not make any awards in 2012 under the 2006 Long-Term Incentive Plan.

C. Board Practices

Teekay Offshore GP L.L.C., our general partner, manages our operations and activities. Unitholders generally are not entitled to elect the directors of our general partner or directly or indirectly participate in our management or operation.

Our general partner’s Board of Directors (or *the Board*) currently consists of six members. Directors are appointed to serve until their successors are appointed or until they resign or are removed.

There are no service contracts between us and any of our directors providing for benefits upon termination of their employment or service.

The Board has the following three committees: Audit Committee, Conflicts Committee, and Corporate Governance Committee. The membership of these committees and the function of each of the committees are described below. Each of the committees is currently comprised solely of independent members, except for the Corporate Governance Committee, and operates under a written charter adopted by the Board, other than the Conflicts Committee. The committee charters for the Audit Committee, the Conflicts Committee and the Corporate Governance Committee are available under “Partnership Governance Charters” in the About Us page of our web site at www.teekayoffshore.com. During 2012, the Board held eight meetings. Each director attended all Board meetings, except for one meeting where one director was absent. Each committee member attended all applicable committee meetings, except for one meeting where one director was absent.

Audit Committee . The Audit Committee of our general partner is composed of three or more directors, each of whom must meet the independence standards of the NYSE, the SEC and any other applicable laws and regulations governing independence from time to time. This committee is currently comprised of directors John J. Peacock (Chair), David L. Lemmon and Carl Mikael L.L. von Mentzer. All members of the committee are financially literate and the Board has determined that Mr. Lemmon qualifies as an audit committee financial expert.

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of:

- the integrity of our financial statements;
- our compliance with legal and regulatory requirements;
- the qualifications and independence of our independent auditor; and
- the performance of our internal audit function and our independent auditor.

Conflicts Committee. The Conflicts Committee of our general partner is composed of the same directors constituting the Audit Committee, being David L. Lemmon (Chair), John J. Peacock, and Carl Mikael L.L. von Mentzer. The members of the Conflicts Committee may not be officers or employees of our general partner or directors, officers or employees of its affiliates, and must meet the heightened NYSE and SEC director independence standards applicable to audit committee membership and certain other requirements.

The Conflicts Committee:

- reviews specific matters that the Board believes may involve conflicts of interest; and
- determines if the resolution of the conflict of interest is fair and reasonable to us.

Any matters approved by the Conflicts Committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our general partner of any duties it may owe us or our unitholders. The Board is not obligated to seek approval of the Conflicts Committee on any matter, and may determine the resolution of any conflict of interest itself.

Corporate Governance Committee. The Corporate Governance Committee of our general partner is composed of at least two directors. This committee is currently comprised of directors Carl Mikael L.L. von Mentzer (Chair), David L. Lemmon, John J. Peacock, and C. Sean Day.

The Corporate Governance Committee:

- oversees the operation and effectiveness of the Board and its corporate governance;
- develops, updates and recommends to the Board corporate governance principles and policies applicable to us and our general partner and monitors compliance with these principles and policies; and
- oversees director compensation and the long-term incentive plan described above.

D. Employees

Crewing and Staff

As of December 31, 2012, approximately 1,930 seagoing staff served on our vessels. Certain subsidiaries of Teekay Corporation employ the crews, who serve on the vessels pursuant to agreements with the subsidiaries. As of December 31, 2012, approximately 34 staff served on shore in technical, commercial and administrative roles in Singapore and Brazil. Teekay Corporation subsidiaries also provide on-shore advisory, operational and administrative support to our operating subsidiaries pursuant to service agreements. Please see Item 7 – Major Unitholders and Related Party transactions – Certain Relationships and Related Party Transactions.

Teekay Corporation regards attracting and retaining motivated seagoing personnel as a top priority, and offers seafarers what we believe are highly competitive employment packages and comprehensive benefits and opportunities for personal and career development, which relates to a philosophy of promoting internally.

Teekay Corporation has entered into a Collective Bargaining Agreement with the Philippine Seafarers' Union, an affiliate of the International Transport Workers' Federation (or *ITF*), and a Special Agreement with ITF London, which covers substantially all of the officers and seamen that operate our Bahamian-flagged vessels. Substantially all officers and seamen for the Norway-flagged vessels are covered by a collective bargaining agreement with Norwegian unions (Norwegian Maritime Officers' Association, Norwegian Union of Marine Engineers and the Norwegian Seafarers' Union). Teekay Corporation has entered into a Collective Bargaining Agreement with Sindicato dos Trabalhadores Offshore do Brasil (SINDITOB), which covers substantially all Brazilian resident offshore employees on board our FPSO units *Rio das Ostras* and *Piranema Spirit* . Teekay Corporation has entered into a Collective Bargaining Agreement with Norwegian offshore unions (SAFE, Industry Energi and DSO), through our membership in Norwegian Shipowners Association (NSA). The agreement covers substantially all of the offshore employees on board our FPSOs on the Norwegian Continental Shelf. We believe Teekay Corporation's relationships with these local labor unions are good.

Our commitment to training is fundamental to the development of the highest caliber of seafarers for marine operations. Teekay Corporation's cadet training approach is designed to balance academic learning with hands-on training at sea. Teekay Corporation has relationships with training institutions in Canada, Croatia, India, Norway, Philippines, Turkey and the United Kingdom. After receiving formal instruction at one of these institutions, cadet training continues on board vessels. Teekay Corporation also has a career development plan that was devised to ensure a continuous flow of qualified officers who are trained on its vessels and familiarized with its operational standards, systems and policies. We believe that high-quality crewing and training policies will play an increasingly important role in distinguishing larger independent shipping companies that have in-house or affiliate capabilities from smaller companies that must rely on outside ship managers and crewing agents on the basis of customer service and safety.

E. Unit Ownership

The following table sets forth certain information regarding beneficial ownership, as of December 31, 2012, of our units by all directors and officers of our general partner as a group. The information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person beneficially owns any units that the person has the right to acquire as of March 1, 2013 (60 days after December 31, 2012) through the exercise of any unit option or other right. Unless otherwise indicated, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the units set forth in the following table. Information for all persons listed below is based on information delivered to us.

Identity of Person or Group	Common Units Owned	Percentage of Common Units Owned (3)
All directors and officers as a group (6 persons) (1) (2)	228,278	0.32%

(1) Excludes units owned by Teekay Corporation, which controls us and on the board of which serve the directors of our general partner, C. Sean Day and Peter Evensen. Peter Evensen is the Chief Executive Officer of Teekay Corporation, the Chief Executive Officer and Chief Financial Officer of Teekay LNG, and a Director of Teekay GP L.L.C., Teekay Offshore GP L.L.C. and Teekay Tankers Ltd. Kenneth Hvid is a Director of Teekay GP L.L.C. and Teekay Offshore GP L.L.C. Mr. Hvid is also Chief Strategy Officer and Executive Vice President of Teekay Corporation. Please read Item 7: Major Unitholders and Related Party Transactions – Certain Relationships and Related Party Transactions for more detail.
(2) Each director, executive officer and key employee beneficially owns less than 1% of the outstanding units.
(3) Excludes the 2% general partner interest held by our general partner, a wholly owned subsidiary of Teekay Corporation.

Item 7. Major Unitholders and Related Party Transactions

A. Major Unitholders

The following table sets forth the beneficial ownership, as of March 1, 2013, of our units by each person we know to beneficially own more than 5% of the outstanding units. The number of units beneficially owned by each person is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person beneficially owns any units as to which the person has or shares voting or investment power. In addition, a person beneficially owns any units that the person or entity has the right to acquire as of April 30, 2013 (60 days after March 1, 2013) through the exercise of any unit option or other right. Unless otherwise indicated, each unitholder listed below has sole voting and investment power with respect to the units set forth in the following table.

Identity of Person or Group	Common Units Owned	Percentage of Common Units Owned
Teekay Corporation (1)	22,362,814	27.9%
Kayne Anderson Capital Advisors, LP, and Richard A. Kayne, as a group (2)	7,959,208	9.9%
Neuberger Berman Group LLC and Neuberger Berman, LLC, as a group (3)	6,113,914	7.6%

(1) Excludes the 2% general partner interest held by our general partner, a wholly owned subsidiary of Teekay Corporation.
(2) Includes shared voting power and shared dispositive power as to 7,959,208 units. Kayne Anderson Capital Advisors, LP, and Richard A. Kayne both have shared voting and dispositive power. Kayne Anderson Capital Advisors, L.P. is the general partner (or general partner of the general partner) of the limited partnerships and investment adviser to the other accounts. Richard A. Kayne is the controlling shareholder of the corporate owner of Kayne Anderson Investment Management, Inc., the general partner of Kayne Anderson Capital Advisors, L.P. Mr. Kayne is also a limited partner of each of the limited partnerships and a shareholder of the registered investment company. This information is based on the Schedule 13G/A filed by this group with the SEC on January 9, 2013.
(3) Includes shared voting power as to 5,495,856 units and shared dispositive power as to 6,113,914 units. Both Neuberger Berman Group LLC and Neuberger Berman LLC have shared dispositive power. Neuberger Berman, LLC and Neuberger Berman Management LLC serve as sub-advisor and investment manager, respectively, of Neuberger Berman Group LLC's mutual funds. The holdings of Neuberger Berman Trust Co N.A., Neuberger Berman Trust Co of Delaware N.A., NB Alternative Fund Management LLC, NB Alternatives Advisers LLC and Neuberger Berman Fixed Income LLC, affiliates of Neuberger Berman LLC, are also aggregated to comprise the required holdings. This information is based on the Schedule 13G filed by this group with the SEC on February 14, 2013.

We are controlled by Teekay Corporation. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of us.

B. Certain Relationships and Related Party Transactions

a) C. Sean Day is the Chairman of our general partner, Teekay Offshore GP L.L.C. He also is the Chairman of Teekay Corporation, Teekay Tankers Ltd. and Teekay GP L.L.C., the general partner of Teekay LNG.

Peter Evensen is the President and Chief Executive Officer of Teekay Corporation, the Chief Executive Officer and Chief Financial Officer of Teekay Offshore GP L.L.C and Teekay GP L.L.C., and a Director of Teekay Corporation, Teekay GP L.L.C., Teekay Offshore GP L.L.C. and Teekay Tankers Ltd.

Kenneth Hvid is a Director of Teekay Offshore GP L.L.C. and Teekay GP L.L.C. Mr. Hvid is also the Chief Strategy Officer and Executive Vice President of Teekay Corporation.

Michael Balaski is the Vice President of Teekay Offshore GP L.L.C. and Teekay GP L.L.C.

Because Mr. Evensen is an employee of Teekay Corporation, his compensation (other than any awards under the long-term incentive plan) is set and paid by Teekay Corporation. Pursuant to our partnership agreement, we have agreed to reimburse Teekay

Corporation for time spent by Mr. Evensen on our management matters as our Chief Executive Officer and Chief Financial Officer. Because Mr. Balaski is an employee of our general partner, his compensation is set and paid by our general partner. Pursuant to our partnership agreement, we have agreed to reimburse our general partner for time spent by Mr. Balaski on our partnership matters.

b) We have entered into an amended and restated omnibus agreement with our general partner, Teekay Corporation, Teekay LNG and related parties. The following discussion describes certain provisions of the omnibus agreement.

Noncompetition . Under the omnibus agreement, Teekay Corporation and Teekay LNG have agreed, and have caused their controlled affiliates (other than us) to agree, not to own, operate or charter "offshore vessels" (i.e. dynamically positioned shuttle tankers (other than those operating in the conventional oil tanker trade under contracts with a remaining duration of less than three years, excluding extension options), FSOs and FPSOs). This restriction does not prevent Teekay Corporation, Teekay LNG or any of their other controlled affiliates from, among other things:

- owning, operating or chartering offshore vessels if the remaining duration of the time charter or contract of affreightment for the vessel, excluding any extension options, is less than three years;
- acquiring offshore vessels and related time charters or contracts of affreightment as part of a business or package of assets and operating or chartering those vessels if a majority of the value of the total assets or business acquired is not attributable to the offshore vessels and related contracts, as determined in good faith by the board of directors of Teekay Corporation or the conflicts committee of the board of directors of Teekay LNG's general partner; however, if Teekay Corporation or Teekay LNG completes such an acquisition, it must, within one year after completing the acquisition, offer to sell the offshore vessels and related contracts to us for their fair market value plus any additional tax or other similar costs to Teekay Corporation or Teekay LNG that would be required to transfer the offshore vessels and contracts to us separately from the acquired business or package of assets;
- owning, operating or chartering offshore vessels and related time charters and contracts of affreightment that relate to tenders, bids or awards for an offshore project that Teekay Corporation or any of its subsidiaries submits or receives; however, at least one year after the delivery date of any such offshore vessel, Teekay Corporation must offer to sell the offshore vessel and related contract to us, with the vessel valued (i) for newbuildings originally contracted by Teekay Corporation, at its "fully-built-up cost" (which represents the aggregate expenditures incurred (or to be incurred prior to delivery to us) by Teekay Corporation to acquire, construct, and/or convert and bring such offshore vessel to the condition and location necessary for our intended use, plus project development costs for completed projects and projects that were not completed but, if completed, would have been subject to an offer to us pursuant to the omnibus agreement) and (ii) for any other vessels, Teekay Corporation's cost to acquire a newbuilding from a third party or the fair market value of any existing vessel, as applicable, plus in each case any subsequent expenditures that would be included in the "fully-built-up cost" of converting the vessel prior to delivery to us;
- acquiring, operating or chartering offshore vessels if our general partner has previously advised Teekay Corporation or Teekay LNG that the board of directors of our general partner has elected, with the approval of its conflicts committee, not to cause us or our subsidiaries to acquire or operate the vessels; or
- owning shares of Teekay Petrojarl.

In addition, under the omnibus agreement we have agreed not to own, operate or charter crude oil tankers or liquefied natural gas (or LNG) carriers. This restriction does not apply to any of the Aframax tankers in our current fleet, and the ownership, operation or chartering of any oil tankers that replace any of those oil tankers in connection with certain events. In addition, the restriction does not prevent us from, among other things:

- acquiring oil tankers or LNG carriers and any related time charters as part of a business or package of assets and operating or chartering those vessels, if a majority of the value of the total assets or business acquired is not attributable to the oil tankers and LNG carriers and any related charters, as determined in good faith by the conflicts committee of our general partner's board of directors; however, if at any time we complete such an acquisition, we are required to promptly offer to sell to Teekay Corporation the oil tankers and time charters or to Teekay LNG the LNG carriers and time charters for fair market value plus any additional tax or other similar costs to us that would be required to transfer the vessels and contracts to Teekay Corporation or Teekay LNG separately from the acquired business or package of assets; or
- acquiring, operating or chartering oil tankers or LNG carriers if Teekay Corporation or Teekay LNG, respectively, has previously advised our general partner that it has elected not to acquire or operate those vessels.

Rights of First Offer on Conventional Tankers, LNG Carriers and Offshore Vessels. Under the omnibus agreement, we have granted to Teekay Corporation and Teekay LNG a 30-day right of first offer on certain (a) sales, transfers or other dispositions of any of our Aframax tankers, in the case of Teekay Corporation, or certain LNG carriers in the case of Teekay LNG, or (b) re-charterings of any of our Aframax tankers or LNG carriers pursuant to a time charter or contract of affreightment with a term of at least three years if the existing charter expires or is terminated early. Likewise, each of Teekay Corporation and Teekay LNG has granted a similar right of first offer to us for any offshore vessels it might own that, at the time of the proposed offer, is subject to a time charter or contract of affreightment with a remaining term, excluding extension options, of at least three years. These rights of first offer do not apply to certain transactions.

The omnibus agreement and a subsequent agreement also obligated Teekay Corporation to offer to us, prior to July 9, 2012, the *Foinaven* FPSO, an existing FPSO unit of Teekay Petrojarl, a wholly-owned subsidiary of Teekay Corporation. We agreed to waive Teekay Corporation's obligation to offer the FPSO unit to us by July 9, 2012, however Teekay Corporation is obligated to offer the FPSO unit to us prior to July 9, 2013. The purchase price for the *Foinaven* FPSO would be its fair market value plus any additional tax or other similar costs to Teekay Petrojarl that would be required to transfer the FPSO unit to us.

c) On April 1, 2010, we acquired Teekay Corporation's 100% interest in an FSO unit, the *Falcon Spirit,* together with its charter contract, for a purchase price of $44.1 million. The purchase was partially financed through proceeds from a public offering of common units. The *Falcon Spirit* is chartered to Occidental Qatar Energy Company LLC, a subsidiary of Occidental Petroleum of Qatar Ltd., on a fixed-rate time charter contract for 7.5 years (beginning December 2009) with an option for the charterer to extend the contract for an additional 1.5 years. The *Falcon Spirit* is a conversion of a double-hull shuttle tanker built in 1986 and it began servicing the Al Raayan oil field off the coast of Qatar in December 2009.

The acquisition consisted of us acquiring Teekay Corporation's equity interest in Teekay Al Raayan LLC for $11.3 million and Teekay Corporation's interest in amounts due to Teekay Corporation from Teekay Al Raayan LLC for $32.8 million. Immediately prior to the acquisition, $11.2 million of amounts due to Teekay Corporation was converted to equity. The portion of the purchase price for the acquisition of the equity interest in Teekay Al Raayan LLC ($11.3 million) was accounted for as an equity distribution to Teekay Corporation. To the extent the purchase price was greater than the corresponding book value, the excess is reflected as a reduction in Partners' Equity and the remainder is shown as a reduction in Dropdown Predecessor Equity. The portion of the purchase price for the acquisition of the intercorporate loan ($32.8 million) was accounted for as repayment of debt.

d) On October 1, 2010, we acquired from Teekay Corporation the *Rio das Ostras* FPSO unit, which is on a long-term charter to Petroleo Brasileiro SA (or *Petrobras*), for a purchase price of $157.7 million, plus working capital of $12.4 million. Immediately prior to the acquisition, $163.0 million of amounts due to Teekay Corporation were converted to equity. The purchase price was financed through the assumption of debt of $93.8 million and the remainder was paid in cash. The purchase price is accounted for as an equity distribution to Teekay Corporation. To the extent the purchase price is less than the corresponding book value, the excess is reflected as an addition in Partners' Equity and the remainder is shown as a reduction in Dropdown Predecessor Equity. The purchase agreement provides that Teekay Corporation shall reimburse us for upgrade costs in excess of the upgrade estimate as of the closing date. During the year ended December 31, 2011, Teekay Corporation reimbursed us for $2.0 million of such upgrade costs, which is reflected as a capital contribution.

On the dropdown, certain assets and liabilities of the *Rio das Ostras* were retained by Teekay Corporation. These net assets retained by Teekay Corporation totaled $0.1 million and are accounted for as a non-cash equity distribution to Teekay Corporation.

e) On October 1, 2010, we acquired from Teekay Corporation the newbuilding shuttle tanker, the *Amundsen Spirit* , which is on a time charter to Statoil ASA, for a purchase price of $128.0 million. The purchase price was financed through the assumption of debt of $93.3 million, the issuance of new units of $17.0 million and $17.7 million with cash. The excess of $31.2 million of the purchase price over the book value of the net liabilities of ($3.5) million, which includes the fair value of an interest rate swap of ($25.9) million, is accounted for as an equity distribution to Teekay Corporation. Immediately prior to the acquisition, $32.7 million of amounts due to Teekay Corporation by Amundsen Spirit LLC was converted to equity.

f) On October 1, 2010, we agreed to acquire from Teekay Corporation its 100% interest in the Nansen Spirit LLC, which owns the newbuilding shuttle tanker, the *Nansen Spirit* . On December 10, 2010, the *Nansen Spirit* commenced its time charter with Statoil ASA and we acquired 100% of Teekay Corporation's interest in the Nansen Spirit LLC for a purchase price of $126.3 million. The purchase price was financed through the assumption of debt of $93.3 million, the issuance of new units of $16.4 million and $16.6 million with cash. The excess of $4.4 million of the purchase price over the book value of the net assets of $28.6 million was accounted for as an equity distribution to Teekay Corporation. Immediately prior to the acquisition, $31.5 million of amounts due to Teekay Corporation by Nansen Spirit LLC was converted to equity. For the period October 1, 2010 to December 10, 2010, we consolidated Nansen Spirit LLC on our financial statements as it was considered a variable interest entity and we were the primary beneficiary.

g) On August 2, 2011, we acquired from Teekay Corporation the *Peary Spirit* for a purchase price of $134.5 million. The purchase price was financed through the assumption of debt of $96.8 million and $37.7 million with cash. The excess of $5.5 million of the cash portion of the purchase price over the book value of the net assets of $32.2 million is accounted for as an equity distribution to Teekay Corporation. Immediately prior to the acquisition, $36.9 million of amounts due to Teekay Corporation by Peary Spirit LLC was converted to equity of the vessel entity. For the period October 1, 2010 to August 2, 2011, we consolidated Peary Spirit LLC on our financial statements as it was considered a variable interest entity and we were the primary beneficiary.

h) On October 1, 2010, we agreed to acquire two interest rate swaps from Teekay Corporation on the same date as it would acquire the *Nansen Spirit* and the *Peary Spirit* from Teekay Corporation. The fair value of the interest rate swaps of ($57.1) million on October 1, 2010, was accounted for as an equity distribution to Teekay Corporation.

i) On March 8, 2011, we acquired Teekay Corporation's 49% interest in OPCO for a combination of $175 million in cash (less $15 million in distributions made by OPCO to Teekay Corporation between December 31, 2010 and the date of acquisition) and the issuance of 7.6 million of our common units to Teekay Corporation and a 2% proportionate interest to the General Partner in a private placement. The acquisition increased our ownership of OPCO to 100%. The excess of the proceeds paid by us over Teekay Corporation's historical book value of $128.0 million for the 49% interest in OPCO was accounted for as an equity distribution to Teekay Corporation of $258.3 million.

j) On October 1, 2011, we acquired from Teekay Corporation a newbuilding shuttle tanker, the *Scott Spirit* , for $116.0 million. The purchase price is subject to adjustment for up to an additional $12 million based upon incremental shuttle tanker revenues above projections used for the sales price valuation generated during the two years following the acquisition. On December 31, 2011, we recognized a liability of $10.9 million in respect of the purchase price adjustment, of which $5.7 million is included in due to affiliates and $5.2 million is included in other liabilities. On October 1, 2012, we repaid a portion of the liability, which at the repayment date was $5.9 million. As at December 31, 2012, the outstanding liability was $5.7 million, which is included in due to affiliates. The purchase price was financed through the assumption of debt of $93.3 million and $23.0 million with cash. The excess of $35.6 of the purchase price (including the contingent consideration liability of $10.1 million on October 1, 2011) over the book value of the net liabilities of $2.6 million, which includes the fair value of an interest rate swap of ($34.6) million, is accounted for as an equity distribution to Teekay Corporation. Immediately prior to the acquisition, $34.5 million of amounts due to Teekay Corporation by Scott Spirit LLC was converted to equity.

k) On October 1, 2012, we acquired from Teekay Corporation the VOC equipment on board the *Amundsen Spirit* , the *Nansen Spirit* , the *Peary Spirit* and the *Scott Spirit* for $12.8 million. On December 31, 2012, we recognized this liability in due to affiliates. The purchase price was financed with cash. The excess of $2.8 million of the purchase price over the net carrying value of the equipment is accounted for as an equity distribution to Teekay Corporation.

l) During the year ended, December 31, 2012, six conventional tankers, two shuttle tankers and two FSO units of ours were employed on long-term time-charter-out contracts with subsidiaries of Teekay Corporation, and two conventional tankers of ours were employed on long-term time-charter-out contracts with a joint venture in which Teekay Corporation has a 50% interest. During the year ended December 31, 2012, we sold one of its conventional vessels which was employed on a long-term, time-charter-out contract to a subsidiary of Teekay Corporation. In 2012, we received an early termination fee from Teekay Corporation of $14.7 million which is recorded in net income (loss) from discontinued operations on the consolidated statements of income (loss). Teekay Corporation and its wholly owned subsidiaries provide substantially all of our commercial, technical, crew training, strategic, business development and administrative services needs. In addition, we reimburse the General Partner for expenses incurred by the General Partner that are necessary or appropriate for the conduct of our business. Revenues (expenses) from such related party transactions were as follows:

	Year Ended December 31,		
	2012 $	2011 $	2010 $
Revenues (1)	89,075	94,751	81,105
Vessel operating expenses (2)	(5,148)	(5,562)	(4,976)
General and administrative (3)(4)	(60,296)	(59,459)	(48,716)
Interest expense (5)	(392)	(316)	(4,199)
Realized and unrealized loss on derivative instruments (6)	—	(12,186)	(5,658)
OCI (7)	—	—	131
Related party transactions from discontinued operations (8)	35,197	72,737	58,674

(1) Revenue from long-term time-charter-out contracts and short-term time-charter-out contracts with subsidiaries or affiliates of Teekay Corporation. The year ended December 31, 2011 includes $1.2 million recovered from Teekay Corporation for penalties accrued in respect of the *Rio das Ostras* which relate to a period prior to the acquisition of the unit by us.

(2) Crew training fees charged by Teekay Corporation.

(3) Commercial, technical, strategic, business development and administrative management fees charged by Teekay Corporation and reimbursements to Teekay Corporation and our General Partner for costs incurred on our behalf.

(4) Amounts are net of $4.9 million, $3.5 million and $3.8 million respectively, during the years ended December 31, 2012, 2011, and 2010, of management fees for ship management services provided by us to a subsidiary of Teekay Corporation.

(5) Guarantee fee related to the final bullet payment of the *Piranema Spirit* FPSO debt facility guaranteed by Teekay Corporation during the year ended December 31, 2012, interest paid to Teekay Corporation for financing our acquisition of an FPSO unit during the year ended December 31, 2010 and interest allocated from Teekay Corporation as a result of the Dropdown Predecessor during the years ended December 31, 2011 and 2010.

(6) Realized/Unrealized losses on interest rate swaps allocated from Teekay Corporation as a result of the Dropdown Predecessor.

(7) Other comprehensive income (or *OCI*) relating to hedging and designated foreign currency forward contracts allocated from Teekay Corporation as a result of the Dropdown Predecessor.

(8) Related party transactions relating to five conventional tankers determined to be discontinued operations. This includes revenue from long-term time-charter-out contracts with subsidiaries or affiliates of Teekay Corporation, including the early termination fee described above; crew training fees charged by Teekay Corporation accounted for as vessel operating expenses; and commercial, technical, strategic and business development management fees charged by Teekay Corporation.

m) At December 31, 2012, due from affiliates totaled $29.7 million (December 31, 2011 – $6.1 million) and due to affiliates totaled $47.8 million (December 31, 2011 – $39.7 million). Due to and from affiliates are non-interest bearing and unsecured and are expected to be settled within the next fiscal year in the normal course of operations.

Item 8. Financial Information

A. Consolidated Financial Statements and Other Financial Information

Consolidated Financial Statements and Notes

Please see Item 18 below for additional information required to be disclosed under this Item.

Legal Proceedings

On November 13, 2006, our shuttle tanker, the *Navion Hispania* , collided with the *Njord Bravo* , a floating storage and off-take unit, while preparing to load an oil cargo from the *Njord Bravo* . The *Njord Bravo* services the Njord field, which is operated by Statoil Petroleum AS (or *Statoil*) and is located off the Norwegian coast. At the time of the incident, Statoil was chartering the *Navion Hispania* from us. The *Navion Hispania* and the *Njord Bravo* both incurred damages as a result of the collision.

In November 2007, Navion Offshore Loading AS (or *NOL*), one of our subsidiaries, and two subsidiaries of Teekay Corporation were named as co-defendants in a legal action filed by Norwegian Hull Club (the hull and machinery insurers of the *Njord Bravo*) and various licensees in the Njord field. The plaintiffs sought damages for vessel repairs, expenses for a replacement vessel and other amounts related to production stoppage on the field, totaling NOK 213,000,000 (approximately $38.3 million). The Stavanger District Court found that NOL is liable for damages except for damages related to certain indirect or consequential losses. The court also found that Statoil ASA is liable to NOL for the same amount of damages. The parties have appealed the decision. As a result of the judgment, as at December 31, 2012 and 2011, we have recognized a liability of NOK 76,000,000 (approximately $13.9 million, which is a reduced amount in accordance with the court's decision to exclude a large part of the indirect or consequential losses) and a corresponding receivable from Statoil, recorded in other liabilities and other assets, respectively.

We believe the likelihood of any losses relating to the claim is remote. We also believe that the charter contract relating to the *Navion Hispania* requires that Statoil be responsible and indemnify us for all losses relating to the damage to the *Njord Bravo* . We and Teekay Corporation also maintain protection and indemnity insurance for damages to the *Navion Hispania* and insurance for collision-related costs and claims. We believe that these insurance policies will cover the costs related to this incident, including any costs not indemnified by Statoil, subject to standard deductibles. In addition, Teekay Corporation has agreed to indemnify us for any losses we may incur in connection with this incident.

In addition, from time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. These claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us.

Cash Distribution Policy

Rationale for Our Cash Distribution Policy

Our cash distribution policy reflects a basic judgment that our unitholders are better served by our distributing our cash available (as defined in our partnership agreement and after deducting expenses, including estimated maintenance capital expenditures and reserves) rather than our retaining it. Because we believe we will generally finance any expansion capital expenditures from external financing sources, we believe that our investors are best served by our distributing all of our available cash. Our cash distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash quarterly (after deducting expenses, including estimated maintenance capital expenditures and reserves).

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy

There is no guarantee that unitholders will receive quarterly distributions from us. Our distribution policy is subject to certain restrictions and may be changed at any time, including:

- Our unitholders have no contractual or other legal right to receive distributions other than the obligation under our partnership agreement to distribute available cash on a quarterly basis, which is subject to our general partner’s broad discretion to establish reserves and other limitations.
- While our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions requiring us to make cash distributions contained therein, may be amended with the approval of a majority of the outstanding common units.
- Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by the Board of Directors of our general partner, taking into consideration the terms of our partnership agreement.
- Under Section 51 of the Marshall Islands Limited Partnership Act, we may not make a distribution to unitholders if the distribution would cause our liabilities to exceed the fair value of our assets.
- We may lack sufficient cash to pay distributions to our unitholders due to decreases in net revenues or increases in operating expenses, principal and interest payments on outstanding debt, tax expenses, working capital requirements, maintenance capital expenditures or anticipated cash needs.
- Our distribution policy may be affected by restrictions on distributions under our credit facility agreements, which contain material financial tests and covenants that must be satisfied. Should we be unable to satisfy these restrictions included in the credit agreements or if we are otherwise in default under the credit agreements, we would be prohibited from making cash distributions, which would materially hinder our ability to make cash distributions to unitholders, notwithstanding our stated cash distribution policy.
- If we make distributions out of capital surplus, as opposed to operating surplus (as such terms are defined in our partnership agreement), those distributions will constitute a return of capital and will result in a reduction in the minimum quarterly distribution and the target distribution levels under our partnership agreement. We do not anticipate that we will make any distributions from capital surplus.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus (as defined in our partnership agreement) after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in our partnership agreement. Except for transfers of incentive distribution rights to an affiliate or another entity as part of our general partner’s merger or consolidation with or into, or sale of all or substantially all of its assets to such entity, the approval of a majority of our common units (excluding common units held by our general partner and its affiliates), voting separately as a class, generally is required for a transfer of the incentive distributions rights to a third party prior to December 31, 2016.

The following table illustrates the percentage allocations of the additional available cash from operating surplus among the unitholders and our general partner up to the various target distribution levels. The amounts set forth under "Marginal Percentage Interest in Distributions'' are the percentage interests of the unitholders and our general partner in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution Target Amount,'' until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests shown for our general partner include its 2% general partner interest and assume the general partner has contributed any capital necessary to maintain its 2.0% general partner interest and has not transferred the incentive distribution rights.

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	General Partner
Minimum Quarterly Distribution	$0.35	98.0%	2.0%
First Target Distribution	Up to $0.4025	98.0%	2.0%
Second Target Distribution	Above $0.4025 up to $0.4375	85.0%	15.0%
Third Target Distribution	Above $0.4375 up to $0.525	75.0%	25.0%
Thereafter	Above $0.525	50.0%	50.0%

B. Significant Changes

On March 8, 2011, we acquired Teekay Corporation's remaining 49% limited partner interest in OPCO for a combination of $175 million in cash (less $15 million in distributions made by OPCO to Teekay Corporation between December 31, 2010 and the date of acquisition), and 7.6 million of common units (and associated General Partner interest) to Teekay Corporation.

Item 9. The Offer and Listing

Our common units are traded on the NYSE under the symbol "TOO". The following table sets forth the high and low closing sales prices for our common units on the NYSE for each of the periods indicated:

Year Ended	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
High	$29.94	$31.19	$29.79	$20.06	$26.46
Low	$24.75	$22.70	$17.79	$ 9.75	$ 6.58

Quarter Ended	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
High	$30.19	$28.21	$29.60	$29.47	$29.94	$28.00	$30.18	$31.19
Low	$26.86	$24.75	$27.20	$26.70	$27.17	$22.80	$22.70	$27.71

Month Ended	Mar 31, 2013	Feb 29, 2013	Jan. 31, 2013	Dec. 31, 2012	Nov. 30, 2012	Oct. 31, 2012
High	$30.19	$28.57	$29.43	$27.00	$27.27	$28.21
Low	$28.13	$26.92	$26.86	$25.33	$24.75	$26.09

Item 10. Additional Information

Memorandum and Articles of Association

The information required to be disclosed under Item 10B is incorporated by reference to our Registration Statement on Form 8-A/A filed with the SEC on May 8, 2008.

Material Contracts

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which we or any of our subsidiaries is a party, for the two years immediately preceding the date of this Annual Report, each of which is included in the list of exhibits in Item 19:

a) Agreement, dated June 26, 2003, for a U.S. $455,000,000 Revolving Credit Facility between Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks. This facility bears interest at LIBOR plus a margin of 0.625%. The amount available under the facility reduces semi-annually, with a bullet reduction of $131.0 million on maturity in October 2014. The credit facility may be used for acquisitions and for general partnership purposes. As at December 31, 2012, our obligations under the facility are secured by first-priority mortgages granted on seven shuttle tankers and one FSO unit, together with other related security.

b) Agreement, dated October 2, 2006, for a U.S. $940,000,000 Revolving Credit Facility between Teekay Offshore Operating L.P., Den Norske Bank ASA and various other banks. This facility bears interest at LIBOR plus a margin of 0.625%. The amount available under the facility reduces semi-annually, with a bullet reduction of $350.0 million on maturity in October 2014. The credit facility may be used for acquisitions and for general partnership purposes. In addition, this facility allows OPCO to make working capital borrowings and loan the proceeds to us, which we could use to make distributions, provided that such amounts are paid down annually. As at December 31, 2012, our obligations under the facility are secured by first-priority mortgages granted on nine of our shuttle tankers and five of our conventional tankers, together with other related security.

c) Amended and Restated Omnibus Agreement, dated December 19, 2006, among us, our general partner, Teekay Corporation, Teekay LNG and related parties. Please read Item 7 – Major Unitholders and Related Party Transactions – Certain Relationships and Related Party Transactions for a summary of certain contract terms.

d) We and certain of our operating subsidiaries have entered into services agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide us, and our operating subsidiaries with administrative, advisory, technical, strategic consulting services, business development and ship management services for a reasonable fee that includes reimbursement of their direct and indirect expenses incurred in providing these services. Please read Item 7 – Major Unitholders and Related Party Transactions – Certain Relationships and Related Party Transactions for a summary of certain contract terms.

e) Teekay Offshore Partners L.P. 2006 Long-Term Incentive Plan. Please read Item 6 – Directors, Senior Management and Employees for a summary of certain plan terms.

f) Agreement, dated September 10, 2009, between Petrojarl Varg AS and Varg L.L.C., relating to the purchase of the *Petrojarl Varg* .

g) Agreement, dated November 25, 2010, for NOK 600,000,000 Senior Unsecured Bonds due November 2013, among us, Teekay Offshore Operating L.P. and Norsk Tillitsman ASA. All payments are at NIBOR plus 4.75% per annum.

h) Agreement, dated March 8, 2011, between Teekay Holdings Limited and Teekay Offshore Partners L.P., relating to the purchase of limited partner interests of OPCO. Please read Item 7 – Major Unitholders and Related Party Transactions – Certain Relationships and Related Party Transactions for a summary of certain contract terms.

i) Agreement, dated November 29, 2011, between Sevan Marine ASA and Piranema L.L.C., relating to the purchase of the *Piranema Spirit* .

j) Agreement, dated January 25, 2012, for NOK 600,000,000 Senior Unsecured Bonds due January 2017, among us and Norsk Tillitsman ASA. All payments are at NIBOR plus 5.75% per annum.

k) Agreement, dated February 23, 2012, for a U.S. $130,000,000 debt facility between Piranema L.L.C. and Den Norske Bank ASA. This facility bears interest at LIBOR plus a margin of 3%. The amount available on under the facility reduces quarterly, with a bullet reduction of $65.0 million on maturity in February 2017.

l) Agreement, dated September 11, 2012, between Teekay Corporation and Teekay Offshore Partners L.P., relating to the purchase of the *Voyageur Spirit* .

m) Agreement, dated January 25, 2013, for NOK 500,000,000 Senior Unsecured Bonds due January 2016, among us and Norsk Tillitsman ASA. All payments are at NIBOR plus 4.00% per annum.

n) Agreement, dated January 25, 2013, for NOK 800,000,000 Senior Unsecured Bonds due January 2018, among us and Norsk Tillitsman ASA. All payments are at NIBOR plus 4.75% per annum.

Exchange Controls and Other Limitations Affecting Unitholders

We are not aware of any governmental laws, decrees or regulations, including foreign exchange controls, in the Republic of The Marshall Islands that restrict the export or import of capital, or that affect the remittance of dividends, interest or other payments to non-resident holders of our securities.

We are not aware of any limitations on the right of non-resident or foreign owners to hold or vote our securities imposed by the laws of the Republic of The Marshall Islands or our partnership agreement.

Material U.S. Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax considerations that may be relevant to unitholders. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (or the *Code*), legislative history, applicable U.S. Treasury Regulations (or *Treasury Regulations*), judicial authority and administrative interpretations, all as in effect on the date of this Annual Report, and which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "we," "our" or "us" are references to Teekay Offshore Partners L.P.

This discussion is limited to unitholders who hold their common units as capital assets for tax purposes. This discussion does not address all tax considerations that may be important to a particular unitholder in light of the unitholder's circumstances, or to certain categories of unitholders that may be subject to special tax rules, such as:

- dealers in securities or currencies,
- traders in securities that have elected the mark-to-market method of accounting for their securities,
- persons whose functional currency is not the U.S. dollar,
- persons holding our common units as part of a hedge, straddle, conversion or other "synthetic security" or integrated transaction,
- certain U.S. expatriates,
- financial institutions,

- insurance companies,
- persons subject to the alternative minimum tax,
- persons that actually or under applicable constructive ownership rules own 10% or more of our common units; and
- entities that are tax-exempt for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common units, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our common units, you should consult your own tax advisor about the U.S. federal income tax consequences of owning and disposing the common units.

This discussion does not address any U.S. estate tax considerations or tax considerations arising under the laws of any state, local or non-U.S. jurisdiction. Each unitholder is urged to consult its own tax advisor regarding the U.S. federal, state, local and other tax consequences of the ownership or disposition of our common units.

United States Federal Income Taxation of U.S. Holders

As used herein, the term *U.S. Holder* means a beneficial owner of our common units that is (i) a U.S. citizen or U.S. resident alien, (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income taxation regardless of its source, or (iv) a trust that either is subject to the supervision of a court within the United States and has one or more U.S. persons with authority to control all of its substantial decisions or has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Distributions

We have elected to be taxed as a corporation for U.S. federal income tax purposes. Subject to the discussion of passive foreign investment companies (or *PFICs*) below, any distributions made by us with respect to our common units to a U.S. Holder generally will constitute dividends, which may be taxable as ordinary income or "qualified dividend income" as described in more detail below, to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder's tax basis in its common units and thereafter as capital gain. U.S. Holders that are corporations for U.S. federal income tax purposes generally will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common units generally will be treated as "passive category income" or, in the case of certain types of U.S. Holders, "general category income" for purposes of computing allowable foreign tax credits for U.S. federal income tax purposes.

Dividends paid on our common units to a U.S. Holder who is an individual, trust or estate (or a *U.S. Individual Holder*) will be treated as "qualified dividend income" that is taxable to such U.S. Individual Holder at preferential capital gain tax rates provided that: (i) our common units are readily tradable on an established securities market in the United States (such as the New York Stock Exchange on which our common units are traded); (ii) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (we intend to take the position that we are not now and have never been a PFIC, as discussed below); (iii) the U.S. Individual Holder has owned the common units for more than 60 days in the 121-day period beginning 60 days before the date on which the common units become ex-dividend; (iv) the U.S. Individual Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property; and (v) certain other conditions are met. There is no assurance that any dividends paid on our common units will be eligible for these preferential rates in the hands of a U.S. Individual Holder. Any dividends paid on our common units not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder.

Special rules may apply to any "extraordinary dividend" paid by us. An extraordinary dividend is, generally, a dividend with respect to a share of stock if the amount of the dividend is equal to or in excess of 10.0% of a stockholder's adjusted basis (or fair market value in certain circumstances) in such stock. In addition, extraordinary dividends include dividends received within a one year period that, in the aggregate, equal or exceed 20% of a shareholder's adjusted tax basis. If we pay an "extraordinary dividend" on our common units that is treated as "qualified dividend income," then any loss derived by a U.S. Individual Holder from the sale or exchange of such common units will be treated as long-term capital loss to the extent of such dividend.

Certain U.S. Individual Holders are subject to a 3.8% tax on certain investment income, including dividends, for taxable years beginning after December 31, 2012.

Sale, Exchange or Other Disposition of Common Units

Subject to the discussion of PFICs below, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common units in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such units. Subject to the discussion of extraordinary dividends above, such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition, and subject to preferential capital gain tax rates. Such capital gain or loss generally will be treated as U.S.-source gain or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

Certain U.S. Individual Holders are subject to a 3.8 percent tax on certain investment income, including capital gains from the sale or other disposition of units, for taxable years beginning after December 31, 2012.

Consequences of Possible PFIC Classification

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to a "look through" rule, either: (i) at least 75.0% of its gross income is "passive" income; or (ii) at least 50.0% of the average value of its assets is attributable to assets that produce passive income or are held for the production of passive income.

For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. By contrast, income derived from the performance of services does not constitute "passive income."

There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc. v. United States* , 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Code. However, the Internal Revenue Service (or *IRS*) stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS's statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the Code. Nevertheless, based on our and our subsidiaries' current assets and operations, we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that the IRS, or a court of law, will accept our position or that we would not constitute a PFIC for any future taxable year if there were to be changes in our or our subsidiaries' assets, income or operations.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes a timely and effective election to treat us as a "Qualified Electing Fund" (a *QEF election*). As an alternative to making a QEF election, a U.S. Holder should be able to make a "mark-to-market" election with respect to our common units, as discussed below.

<u>Taxation of U.S. Holders Making a Timely QEF Election</u> . If a U.S. Holder makes a timely QEF election (an *Electing Holder*), the Electing Holder must report each taxable year for U.S. federal income tax purposes the Electing Holder's pro rata share of our ordinary earnings and net capital gain, if any, for our taxable years that end with or within the Electing Holder's taxable year, regardless of whether or not the Electing Holder received distributions from us in that year. Such pro rata share would not exceed the income allocable to dividends on our units, although ordinary earnings could be allocated to a unitholder in a taxable year before the dividend is paid. Such income inclusions would not be eligible for the preferential tax rates applicable to qualified dividend income. The Electing Holder's adjusted tax basis in the common units will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that were previously taxed will result in a corresponding reduction in the Electing Holder's adjusted tax basis in common units and will not be taxed again once distributed. An Electing Holder generally will recognize capital gain or loss on the sale, exchange or other disposition of our common units. A U.S. Holder makes a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with the U.S. Holder's timely filed U.S. federal income tax return (including extensions).

If a U.S. Holder has not made a timely QEF election with respect to the first year in the U.S. Holder's holding period of our common units during which we qualified as a PFIC, the U.S. Holder may be treated as having made a timely QEF election by filing a QEF election with the U.S. Holder's timely filed U.S. federal income tax return (including extensions) and, under the rules of Section 1291 of the Code, a "deemed sale election" to include in income as an "excess distribution" (described below) the amount of any gain that the U.S. Holder would otherwise recognize if the U.S. Holder sold the U.S. Holder's common units on the "qualification date". The qualification date is the first day of our taxable year in which we qualified as a "qualified electing fund" with respect to such U.S. Holder. In addition to the above rules, under very limited circumstances, a U.S. Holder may make a retroactive QEF election if the U.S. Holder failed to file the QEF election documents in a timely manner. If a U.S. Holder makes a timely QEF election for one of our taxable years, but did not make such election with respect to the first year in the U.S. Holder's holding period of our common units during which we qualified as a PFIC and the U.S. Holder did not make the deemed sale election described above, the U.S. Holder also will be subject to the more adverse rules described below.

A U.S. Holder's QEF election will not be effective unless we annually provide the U.S. Holder with certain information concerning our income and gain, calculated in accordance with the Code, to be included with the U.S. Holder's U.S. federal income tax return. We have not provided our U.S. Holders with such information in prior taxable years and do not intend to provide such information in the current taxable year. Accordingly, U.S. Holders will not be able to make an effective QEF election at this time. If, contrary to our expectations, we determine that we are or will be a PFIC for any taxable year, we will provide U.S. Holders with the information necessary to make an effective QEF election with respect to our common units.

<u>Taxation of U.S. Holders Making a "Mark-to-Market" Election</u> . If we were to be treated as a PFIC for any taxable year and, as we anticipate, our units were treated as "marketable stock," then, as an alternative to making a QEF election, a U.S. Holder would be allowed to make a "mark-to-market" election with respect to our common units, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made for the first year a U.S. Holder holds or is deemed to hold our common units and for which we are a PFIC, the U.S. Holder generally would include as ordinary income in each taxable year that we are a PFIC the excess, if any, of the fair market value of the U.S. Holder's common units at the end of the taxable year over the U.S. Holder's adjusted tax basis in the common units. The U.S. Holder also would be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common units over the fair market value thereof at the end of the taxable year that we are a PFIC, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in the U.S. Holder's common units would be adjusted to reflect any such income or loss recognized. Gain recognized on the sale, exchange or other disposition of our common units in taxable years that we are a PFIC would be treated as ordinary income, and any loss recognized on the sale, exchange or other disposition of the common units in taxable years that we are a PFIC would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included in income by the U.S. Holder. Because the mark-to-market election only applies to marketable

stock, however, it would not apply to a U.S. Holder's indirect interest in any of our subsidiaries that were also determined to be PFICs.

If a U.S. Holder makes a mark-to-market election for one of our taxable years and we were a PFIC for a prior taxable year during which such holder held our common units and for which (i) we were not a QEF with respect to such U.S. Holder and (ii) such U.S. Holder did not make a timely mark-to-market election, such U.S. Holder would also be subject to the more adverse rules described below in the first taxable year for which the mark-to-market election is in effect and also to the extent the fair market value of the U.S. Holder's common units exceeds the U.S. Holder's adjusted tax basis in the common units at the end of the first taxable year for which the mark-to-market election is in effect.

Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election. If we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF election or a "mark-to-market" election for that year (a *Non-Electing Holder*) would be subject to special rules resulting in increased tax liability with respect to (i) any excess distribution (i.e., the portion of any distribution received by the Non-Electing Holder on our common units in a taxable year in excess of 125.0% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years or, if shorter, the Non-Electing Holder's holding period for the common units), and (ii) any gain realized on the sale, exchange or other disposition of units. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common units;
- the amount allocated to the current taxable year and any taxable year prior to the taxable year we were first treated as a PFIC with respect to the Non-Electing Holder would be taxed as ordinary income in the current taxable year;
- the amount allocated to each of the other taxable years would be subject to U.S. federal income tax at the highest rate of tax in effect for the applicable class of taxpayer for that year; and
- an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

If we were treated as a PFIC, a U.S. Holder would be required to file Form 8621 annually with the IRS and would be required to comply with all other applicable filing requirements with respect to the U.S. Holder's units. In addition, if a Non-Electing Holder who is an individual dies while owning our common units, such Non-Electing Holder's successor generally would not receive a step-up in tax basis with respect to such units.

U.S. Holders are urged to consult their own tax advisors regarding the applicability, availability and advisability of, and procedure for, making QEF, Mark-to-Market Elections and other available elections with respect to us, and the U.S. federal income tax consequences of making such elections.

U.S. Return Disclosure Requirements for U.S. Individual Holders

U.S. Individual Holders who hold certain specified foreign financial assets, including stock in a foreign corporation that is not held in an account maintained by a financial institution, with an aggregate value in excess of $50,000, may be required to report such assets on IRS Form 8938 with their U.S. federal income tax return. Penalties apply for failure to properly complete and file Form 8938. You are encouraged to consult with your tax advisor regarding the possible application of this disclosure requirement.

United States Federal Income Taxation of Non-U.S. Holders

A beneficial owner of our common units (other than a partnership, including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is a *Non-U.S. Holder*.

Distributions

In general, distributions we make to a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax if the Non-U.S. Holder is not engaged in a U.S. trade or business. If the Non-U.S. Holder is engaged in a U.S. trade or business, distributions we make will be subject to U.S. federal income tax to the extent those distributions constitute income effectively connected with that Non-U.S. Holder's U.S. trade or business. However, distributions made to a Non-U.S. Holder that is engaged in a trade or business may be exempt from taxation under an income tax treaty if the income represented thereby is not attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder.

Sale, Exchange or Other Disposition of Common Units

The U.S. federal income taxation of Non-U.S. Holders on any gain resulting from the disposition of our common units generally is the same as described above regarding distributions. However, an individual Non-U.S. Holder may be subject to tax on gain resulting from the disposition of our common units if the Non-U.S. Holder is present in the United States for 183 days or more during the taxable year in which such disposition occurs and meets certain other requirements.

Backup Withholding and Information Reporting

In general, payments of distributions or the proceeds of a disposition of common units to a non-corporate U.S. Holder will be subject to information reporting requirements. These payments to a non-corporate U.S. Holder also may be subject to backup withholding if the non-corporate U.S. Holder:

- fails to timely provide an accurate taxpayer identification number;
- is notified by the IRS that the U.S. Holder has failed to report all interest or distributions required to be shown on the U.S. Holder U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding on payments within the unitholder's United States, or through a U.S. payor, by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

Backup withholding is not an additional tax. Rather, a unitholder generally may obtain a credit for any amount withheld against its liability for

U.S. federal income tax (and a refund of any amounts withheld in excess of such liability) by accurately completing and timely filing a return with the IRS.

Non-United States Tax Consequences

Marshall Islands Tax Consequences . Because we and our subsidiaries do not, and we do not expect that we and our subsidiaries will, conduct business or operations in the Republic of The Marshall Islands, and because all documentation related to our initial public offering was executed outside of the Republic of The Marshall Islands, under current Marshall Islands law, no taxes or withholdings will be imposed by the Republic of the Marshall Islands on distributions, including upon a return of capital, made to unitholders, so long as such persons do not reside in, maintain offices in, nor engage in business in the Republic of The Marshall Islands. Furthermore, no stamp, capital gains or other taxes will be imposed by the Republic of The Marshall Islands on the purchase, ownership or disposition by such persons of our common units.

Canadian Federal Income Tax Consequences. The following discussion is a summary of the material Canadian federal income tax consequences under the *Income Tax Act* (Canada) (or the *Canada Tax Act*) that we believe are relevant to holders of common units who, for the purposes of the Canada Tax Act and the Canada-United States Tax Convention 1980 (or the *Canada-U.S. Treaty*) are, at all relevant times, resident in the United States and entitled to all of the benefits of the Canada – U.S. Treaty and who deal at arm’s length with us and Teekay Corporation (or *U.S. Resident Holders*). This discussion takes into account all proposed amendments to the Canada Tax Act and the regulations thereunder that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and assumes that such proposed amendments will be enacted substantially as proposed. However, no assurance can be given that such proposed amendments will be enacted in the form proposed or at all.

A U.S. Resident Holder will not be liable to tax under the Canada Tax Act on any income or gains allocated by us to the U.S. Resident Holder in respect of such U.S. Resident Holder’s common units, provided that (a) we do not carry on business in Canada for purposes of the Canada Tax Act and (b) such U.S. Resident Holder does not hold such common units in connection with a business carried on by such U.S. Resident Holder through a permanent establishment in Canada for purposes of the Canada-U.S. Treaty.

A U.S. Resident Holder will not be liable to tax under the Canada Tax Act on any income or gain from the sale, redemption or other disposition of such U.S. Resident Holder’s common units, provided that, for purposes of the Canada-U.S. Treaty, such common units do not, and did not at any time in the twelve-month period preceding the date of disposition, form part of the business property of a permanent establishment in Canada of such U.S. Resident Holder.

In this regard, we believe that our activities and affairs and the activities and affairs of OPCO, a Marshall Island Limited Partnership in which we own a 100% limited partnership interest, are conducted in a manner that both we and OPCO are not carrying on business in Canada and that U.S. Resident Holders should not be considered to be carrying on business in Canada for purposes of the Canada Tax Act or the Canada-U.S. Treaty solely by reason of the acquisition, holding, disposition or redemption of their common units. We intend that this is and continues to be the case, notwithstanding that Teekay Shipping Limited (a subsidiary of Teekay Corporation that is resident and based in Bermuda) provides certain services to Teekay Offshore Partners L.P. and OPCO and obtains some or all such services under subcontracts with Canadian service providers. However, we cannot assure this result.

Documents on Display

Documents concerning us that are referred to herein may be inspected at our principal executive headquarters at 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Those documents electronically filed via the SEC’s Electronic Data Gathering, Analysis, and Retrieval (or EDGAR) system may also be obtained from the SEC’s website at www.sec.gov, free of charge, or from the SEC’s Public Reference Section at 100 F Street, NE, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to the impact of interest rate changes primarily through our floating-rate borrowings. Significant increases in interest rates could adversely affect operating margins, results of operations and our ability to service debt. From time to time, we use interest rate swaps to reduce exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with the floating-rate debt.

In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that are rated A- or better by Standard & Poor’s or A3 or better by Moody’s at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

The tables below provide information about financial instruments as at December 31, 2012 that are sensitive to changes in interest rates. For debt obligations, the table presents principal payments and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

	Expected Maturity Date								
	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value Liability	Rate (1)
	(in millions of U.S. dollars, except percentages)								
Long-Term Debt:									
Variable Rate ($U.S.) (2)	210.4	755.9	82.4	79.5	186.0	239.8	1,554.0	1,452.1	1.3%
Variable Rate (NOK) (3)	38.0	—	—	69.8	107.8	—	215.6	221.1	7.2%
Interest Rate Swaps:									
Contract Amount (4)(5)	243.5	104.7	229.8	100.2	72.3	755.5	1,506.0	270.7	4.3%
Average Fixed Pay Rate (2)	2.0%	4.4%	4.3%	4.4%	1.2%	5.2%	4.3%		

(1) Rate refers to the weighted-average effective interest rate for our debt, including the margin paid on our floating-rate debt and the average fixed pay rate for interest rate swaps. The average fixed pay rate for interest rate swaps excludes the margin paid on the floating-rate debt, which as of December 31, 2012 ranged between 0.30% and 3.25% based on LIBOR and between 4.75% and 5.75% based on NIBOR.
(2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR.
(3) Interest payments on Norwegian Kroner-denominated debt and interest rate swaps are based on NIBOR. Our NOK-denominated debt has been economically hedged with two cross currency swaps, to swap all interest and principal payments at maturity into U.S. Dollars. Please see the table in the Foreign Currency Fluctuation Risk section below and read Item 18. – Financial Statements: Note 13 – Derivative Instruments.
(4) The average variable receive rate for interest rate swaps is set quarterly at the 3-month LIBOR or semi-annually at the 6-month LIBOR.
(5) Includes an interest rate swap where the LIBOR rate receivable is capped at 3.5% on a notional amount of $98.5 million maturing in 2013.

Foreign Currency Fluctuation Risk

Our functional currency is U.S. dollars because virtually all of our revenues and most of our operating costs are in U.S. Dollars. We incur certain vessel operating expenses and general and administrative expenses in foreign currencies, the most significant of which is the Norwegian Kroner and, to a lesser extent, Australian Dollars, Brazilian Reals, British Pounds, Euros and Singapore Dollars. For the years ended December 31, 2012 and 2011, approximately 49.9% and 43.6%, respectively, of vessel operating costs and general and administrative expenses were denominated in Norwegian Kroner. There is a risk that currency fluctuations will have a negative effect on the value of cash flows.

We may continue to seek to hedge these currency fluctuation risks in the future. At December 31, 2012, we were committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (thousands)	Average Forward Rate (1)	Expected Maturity 2013 (in thousands of U.S. Dollars)
Norwegian Kroner	195,000	5.94	32,848
British Pound	1,500	0.65	2,322
Euro	1,800	0.76	2,382
			37,552

(1) Average forward rate represents the contracted amount of foreign currency one U.S. Dollar will buy.

We incur interest expense on our Norwegian Kroner-denominated bonds; however we have entered into a cross currency swap to economically hedge the foreign exchange risk on the principal and interest for these bonds. Please read Item 18 – Financial Statements: Note 13 – Derivative Instruments.

As at December 31, 2012, we were committed to the following cross currency swaps:

Principal Amount NOK (Thousands)	Principal Amount USD (Thousands)	Floating Rate Receivable Reference Rate	Floating Rate Receivable Margin	Floating Rate Payable Reference Rate	Floating Rate Payable Margin	Fixed Rate Payable	Fair Value / Asset (Liability) (Thousands of U.S. Dollars)	Remaining Term (years)
600,000	98,500	NIBOR	4.75%	LIBOR (1)	5.04%		9,890	0.9
600,000	101,400	NIBOR	5.75%			7.49%	3,545	4.1
							13,435	

(1) LIBOR subsequently fixed at 1.1%, subject to a LIBOR rate receivable cap of 3.5%. Please read Item 18 – Financial Statements: Note 13 – Derivative Instruments and Hedging Activities.

Commodity Price Risk

We are exposed to changes in forecasted bunker fuel costs for certain vessels being time-chartered-out and for vessels servicing certain contracts of affreightment. We may use bunker fuel swap contracts as economic hedges to protect against changes in bunker fuel costs. As at December 31, 2012, we were not committed to any bunker fuel swap contracts.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not Applicable.

Item 14. Material Modifications to the Rights of Unitholders and Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (or the Exchange Act)) that are designed to ensure that (i) information required to be disclosed in our reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We conducted an evaluation of our disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2012.

During the year ended 2012, we implemented a new accounting system designed to improve the effectiveness and efficiency of our accounting and financial reporting processes. Although this implementation changed certain specific activities within the accounting function, it did not significantly affect the overall controls and procedures followed by us in establishing internal controls over financial reporting. Other than this accounting system implementation, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the year ended December 31, 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

The Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or internal controls will prevent all errors and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within us have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining for us adequate internal controls over financial reporting.

Our internal controls were designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal controls over financial reporting include those policies and procedures that: 1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of management and the directors; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. However, based on the evaluation, management believes that we maintained effective internal control over financial reporting as of December 31, 2012.

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Our independent auditors, KPMG LLP, a registered public accounting firm, has audited the accompanying consolidated financial statements and our internal control over financial reporting. Their attestation report on the effectiveness of our internal control over financial reporting can be found on page F-2 of this Annual Report.

Item 16A. Audit Committee Financial Expert

The board of directors of our General Partner has determined that director David L. Lemmon qualifies as an audit committee financial expert and is independent under applicable NYSE and SEC standards.

Item 16B. Code of Ethics

Our general partner has adopted revised Standards of Business Conduct that include a Code of Ethics for all our employees and the employees and directors of our general partner. This document is available under "About Us—Partnership Governance" from the Home Page of our web site (www.teekayoffshore.com). We intend to disclose, under "About Us—Partnership Governance" in the About Us section of our web site, any waivers to or amendments of the Code of Ethics for the benefit of any directors and executive officers of our general partner.

Item 16C. Principal Accountant Fees and Services

Our principal accountant for 2012 and 2011 was KPMG LLP, Chartered Accountants. The following table shows the fees we paid or accrued for audit services provided by KPMG LLP for 2012 and by KPMG LLP and Ernst & Young LLP for 2011.

	2012	2011
	(in thousands of U.S. dollars)	
Audit Fees (1)(2)	$ 716	$ 1,131
Audit-related Fees (3)	17	—
Tax Fees (4)	30	10
Total	$ 763	$ 1,141

(1) Audit fees represent fees for professional services provided in connection with the audit of our consolidated financial statements, review of our quarterly consolidated financial statements and audit services provided in connection with other statutory or regulatory filings, including professional services in connection with the review of our regulatory filings for our follow-on offering of common units.
(2) Total audit fees incurred with respect to KPMG LLP were approximately $716,000 and $580,000 for 2012 and 2011, respectively. Total audit fees incurred with respect to Ernst & Young LLP were approximately nil and $551,000 for 2012 and 2011, respectively.
(3) For 2012, audit-related fees relate primarily to assistance with statutory reporting requirements and general accounting issues.
(4) For 2012 and 2011, tax fees relate primarily to corporate tax compliance fees.

The Audit Committee of our general partner's Board of Directors has the authority to pre-approve permissible audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees. Engagements for proposed services either may be separately pre-approved by the Audit Committee or entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee, as long as the Audit Committee is informed on a timely basis of any engagement entered into on that basis. The Audit Committee separately pre-approved all engagements and fees paid to our principal accountant in 2012.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Units by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable

Item 16G. Corporate Governance

There are no significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing requirements of the New York Stock Exchange.

Item 16H. Mine Safety Disclosure

Not applicable.

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PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

The following financial statements, together with the related reports of KPMG LLP, Independent Registered Public Accounting Firm thereon, and Ernst and Young LLP, Independent Registered Public Accounting Firm thereon, are filed as part of this Annual Report:

All schedules for which provision is made in the applicable accounting regulations of the SEC are not required, are inapplicable or have been disclosed in the Notes to the Consolidated Financial Statements and therefore have been omitted.

Item 19. Exhibits

The following exhibits are filed as part of this Annual Report:

1.1 Certificate of Limited Partnership of Teekay Offshore Partners L.P. (1)

1.2 First Amended and Restated Agreement of Limited Partnership of Teekay Offshore Partners L.P. (2)

1.3 Certificate of Formation of Teekay Offshore GP L.L.C. (1)

1.4 Amended and Restated Limited Liability Company Agreement of Teekay Offshore GP L.L.C. (1)

1.5 Certificate of Limited Partnership of Teekay Offshore Operating L.P. (1)

1.6 Amended and Restated Agreement of Limited Partnership of Teekay Offshore Operating Partners L.P. (1)

1.7 Certificate of Formation of Teekay Offshore Operating GP L.L.C. (1)

1.8 Amended and Restated Limited Liability Company Agreement of Teekay Offshore Operating GP L.L.C. (1)

2.1 Agreement, dated November 25, 2010, among Teekay Offshore Partners L.P., Teekay Offshore Operating L.P. and Norsk Tillitsman ASA for NOK 600,000,000 Senior Unsecured Bonds due 2013. (5)

2.2 Agreement, dated January 25, 2012, among Teekay Offshore Partners L.P. and Norsk Tillitsman ASA for NOK 600,000,000 Senior Unsecured Bonds due 2017. (6)

2.3 Agreement, dated January 25, 2013, among Teekay Offshore Partners L.P. and Norsk Tillitsman ASA for NOK 500,000,000 Senior Unsecured Bonds due 2016.

2.4 Agreement, dated January 25, 2013, among Teekay Offshore Partners L.P. and Norsk Tillitsman ASA for NOK 800,000,000 Senior Unsecured Bonds due 2018.

4.1 Agreement, dated June 26, 2003, for a U.S $455,000,000 Revolving Credit Facility between Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks (1)

4.2 Agreement, dated October 2, 2006, for a U.S $940,000,000 Revolving Credit Facility between Teekay Offshore Operating L.P., Den Norske Bank ASA and various other banks (1)

4.3 Teekay Offshore Partners L.P. 2006 Long-Term Incentive Plan (1)

4.4 Amended and Restated Omnibus Agreement (1)

4.5 Administrative Services Agreement between Teekay Offshore Operating Partners L.P. and Teekay Limited (3)

4.6 Advisory, Technical and Administrative Services Agreement between Teekay Offshore Operating Partners L.P. and Teekay Limited

	(3)
4.7	Administrative Services Agreement between Teekay Offshore Partners L.P. and Teekay Limited (3)
4.8	Agreement, dated September 10, 2009, between Petrojarl Varg AS and Varg L.L.C., relating to the purchase of the *Petrojarl Varg* (4)
4.9	Agreement, dated March 8, 2011, between Teekay Holdings Limited and Teekay Offshore Partners L.P., relating to the purchase of limited partner interests of OPCO. (5)
4.10	Agreement, dated November 29, 2011, between Sevan Marine ASA and Piranema L.L.C., relating to the purchase of the *Piranema Spirit* . (6)
4.11	Agreement, dated February 23, 2012, among Piranema L.L.C. and Den Norske Bank ASA for a U.S. $130,000,000 debt facility maturing in 2017.
4.13	Agreement, dated September 11, 2012, between Teekay Corporation and Teekay Offshore Partners L.P., relating to the purchase of the *Voyageur Spirit* . (7)
4.12	Business Development Services Agreement between Teekay Offshore Holdings L.L.C. and Teekay Shipping Limited.
8.1	List of Subsidiaries of Teekay Offshore Partners L.P.
12.1	Rule 13a-14(a)/15d-14(a) Certification of Teekay Offshore Partners L.P.'s Chief Executive Officer
12.2	Rule 13a-14(a)/15d-14(a) Certification of Teekay Offshore Partners L.P.'s Chief Financial Officer
13.1	Teekay Offshore Partners L.P. Certification of Peter Evensen, Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of Ernst & Young LLP, as independent registered public accounting firm.

15.2	Consent of KPMG LLP, as independent registered public accounting firm.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

(1) Previously filed as an exhibit to our Registration Statement on Form F-1 (File No. 333-139116), filed with the SEC on December 4, 2006, and hereby incorporated by reference to such Registration Statement.
(2) Previously filed as Appendix A to our Rule 424(b)(4) Prospectus filed with the SEC on December 14, 2006, and hereby incorporated by reference to such Prospectus.
(3) Previously filed as an exhibit to our Amendment No. 1 to Registration Statement on Form F-1 (File No. 333-139116), filed with the SEC on December 8, 2006, and hereby incorporated by reference to such Registration Statement.
(4) Previously filed as an exhibit to our Annual Report on Form 20-F (File No.1-33198), filed with the SEC on April 30, 2010, and hereby incorporated by reference to such Annual Report.
(5) Previously filed as an exhibit to our Annual Report on Form 20-F (File No.1-33198), filed with the SEC on April 11, 2011, and hereby incorporated by reference to such Annual Report.
(6) Previously filed as an exhibit to our Annual Report on Form 20-F (File No.1-33198), filed with the SEC on April 24, 2012, and hereby incorporated by reference to such Annual Report.
(7) Previously filed as an exhibit to our Report on Form 6-K (File No.1-33198), filed with the SEC on September 11, 2012, and hereby incorporated by reference to such Report.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TEEKAY OFFSHORE PARTNERS L.P.

By: Teekay Offshore GP L.L.C., its General Partner

Date: April 11, 2013

By: /s/ Peter Evensen

Peter Evensen
Chief Executive Officer and Chief Financial Officer
(Principal Financial and Accounting Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Unitholders of
Teekay Offshore Partners L.P.

We have audited the accompanying consolidated balance sheets of Teekay Offshore Partners L.P. and subsidiaries (the “Partnership”) as of December 31, 2012 and 2011, and the related consolidated statements of income (loss), comprehensive income (loss), cash flows, and changes in total equity for each of the years in the two year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated statements of income (loss), comprehensive income (loss), cash flows, and changes in total equity of the Partnership for the year ended December 31, 2010, were audited by other auditors whose report thereon dated April 11, 2011, expressed an unqualified opinion on those statements, before the retrospective adjustment described in note 1 to the consolidated financial statements

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited the adjustments described in note 1 that were applied to retrospectively adjust the consolidated statement of income (loss) for the year ended December 31, 2010 for the presentation of discontinued operations. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated statement of income (loss) for the year ended December 31, 2010 of the Partnership other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated statement of income (loss) for the year ended December 31, 2010 taken as a whole.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Partnership’s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 11, 2013 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Vancouver, Canada
April 11, 2013

/s/ KPMG LLP
Chartered Accountants

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of
Teekay Offshore Partners L.P.

We have audited the accompanying consolidated statements of income (loss), comprehensive income (loss), changes in total equity and cash flows of Teekay Offshore Partners L.P. and subsidiaries (or the *Partnership*) for the year ended December 31, 2010, prior to the retrospective adjustment described in note 1 to the consolidated financial statements. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, prior to the retrospective adjustment described in note 1 to the consolidated financial statements, present fairly, in all material respects, the consolidated results of the operations, cash flows and changes in total equity of Teekay Offshore Partners L.P. and subsidiaries for the year ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

Vancouver, Canada
April 11, 2011

/s/ ERNST & YOUNG LLP
Chartered Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of
Teekay Offshore Partners L.P.

We have audited Teekay Offshore Partners L.P. and subsidiaries (the “Partnership”) internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Partnership’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting in the accompanying Form 20-F. Our responsibility is to express an opinion on the Partnership’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Partnership as at December 31, 2012 and 2011, and the related consolidated statements of income (loss), comprehensive income (loss), cash flows, and changes in total equity for each of the years in the two year period ended December 31, 2012, and our report dated April 11, 2013, expressed an unqualified opinion on those consolidated financial statements.

Vancouver, Canada	/s/ KPMG LLP
April 11, 2013	Chartered Accountants

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (notes 1 and 2)
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in thousands of U.S. dollars, except unit and per unit data)

	Year Ended December 31 2012 $	Year Ended December 31 2011 $	Year Ended December 31 2010 $
REVENUES *(note 12)*	926,137	873,501	840,663
OPERATING EXPENSES			
Voyage expenses	116,111	106,377	113,508
Vessel operating expenses *(notes 12 and 13)*	284,712	279,963	255,561
Time-charter hire expense	56,989	74,478	89,795
Depreciation and amortization	193,383	176,483	174,861
General and administrative *(notes 12 and 13)*	74,399	71,506	61,192
Write down of vessels *(note 19)*	23,430	36,868	9,441
Loss on sale of vessels *(note 19)*	1,112	171	—
Restructuring charge *(note 10)*	1,115	3,924	119
Total operating expenses	751,251	749,770	704,477
Income from vessel operations	174,886	123,731	136,186
OTHER ITEMS			
Interest expense *(notes 8 and 12)*	(47,799)	(36,216)	(36,576)
Interest income	1,027	659	842
Realized and unrealized loss on derivative instruments *(note 13)*	(26,349)	(159,744)	(55,666)
Foreign currency exchange (loss) gain *(note 13)*	(313)	1,500	941
Other income – net *(note 11)*	1,536	3,681	6,810
Total other items	(71,898)	(190,120)	(83,649)
Income (loss) from continuing operations before income tax recovery (expense)	102,988	(66,389)	52,537
Income tax recovery (expense) *(note 14)*	10,477	(6,679)	9,718
Net income (loss) from continuing operations	113,465	(73,068)	62,255
Net income (loss) from discontinued operations *(note 19)*	9,550	(23,803)	16,608
Net income (loss)	123,015	(96,871)	78,863
Non-controlling interests in net income (loss) from continuing operations	58	19,527	29,240
Non-controlling interests in net income (loss) from discontinued operations	—	2,927	8,138
Non-controlling interests in net income (loss)	58	22,454	37,378
Dropdown Predecessor's interest in net income (loss) *(note 2)*	—	(15,075)	(16,685)
General Partner's interest in net income (loss) from continuing operations	10,196	3,293	3,723
General Partner's interest in net income (loss) from discontinued operations	859	1,103	636
General Partner's interest in net income (loss)	11,055	4,396	4,359
Limited partners' interest in net income (loss) from continuing operations	103,211	(80,813)	45,977
Limited partners' interest in net income (loss) from continuing operations per common unit - basic *(note 17)*	1.40	(1.29)	1.04
Limited partners' interest in net income (loss) from continuing operations per common unit - diluted *(note 17)*	1.40	(1.29)	1.04
Limited partners' interest in net income (loss) from discontinued operations	8,691	(27,833)	7,834
Limited partners' interest in net income (loss) from discontinued operations per unit - basic *(note 17)*	0.12	(0.45)	0.18
Limited partners' interest in net income (loss) from discontinued operations per unit - diluted *(note 17)*	0.12	(0.45)	0.18
Limited partners' interest in net income (loss)	111,902	(108,646)	53,811
Limited partners' interest in net income (loss) per common unit - basic (note 17)	1.52	(1.74)	1.22
Limited partners' interest in net income (loss) per common unit - diluted (note 17)	1.52	(1.74)	1.22
Weighted-average number of common units outstanding - basic	73,750,951	62,362,072	44,278,158
Weighted-average number of common units outstanding - diluted	73,750,951	62,362,072	44,278,158
Cash distributions declared per unit	2.04	1.98	1.88

The accompanying notes are an integral part of the consolidated financial statements.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (notes 1 and 2)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands of U.S. dollars)

	Year Ended December 31, 2012 $	Year Ended December 31, 2011 $	Year Ended December 31, 2010 $
Net income (loss)	123,015	(96,871)	78,863
Other comprehensive income (loss):			
Unrealized net gain (loss) on qualifying cash flow hedging instruments *(note 13)*	713	319	(3,154)
Realized net (gain) loss on qualifying cash flow hedging instruments *(note 13)*	(217)	(2,345)	3,243
Pension adjustments	—	—	(909)
Other comprehensive income (loss)	496	(2,026)	(820)
Comprehensive income (loss)	123,511	(98,897)	78,043
Non-controlling interest in comprehensive income (loss)	493	22,889	37,358
Dropdown Predecessor’s interest in comprehensive income (loss)	—	(15,075)	(17,463)
General and limited partners’ interest in comprehensive income (loss)	123,018	(106,711)	58,148

The accompanying notes are an integral part of the consolidated financial statements.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (notes 1 and 2)
CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at December 31 2012 $	As at December 31 2011 $
ASSETS		
Current		
Cash and cash equivalents	206,339	179,934
Accounts receivable, including non-trade of $7,714 (December 31, 2011 - $7,714)	91,879	83,129
Vessels held for sale *(note 4a)*	13,250	19,000
Net investments in direct financing leases - current *(note 9)*	5,647	17,096
Prepaid expenses	29,384	36,963
Due from affiliates *(note 12l)*	29,682	6,138
Current portion of derivative instruments *(note 13)*	12,398	4,318
Other current assets	8	1,181
Total current assets	388,587	347,759
Vessels and equipment		
At cost, less accumulated depreciation of $1,080,558 (December 31, 2011 - $1,023,894)	2,327,337	2,539,949
Advances on newbuilding contracts	127,286	45,637
Net investments in direct financing leases *(note 9)*	27,568	33,210
Derivative instruments *(note 13)*	2,913	877
Deferred tax asset *(note 14)*	8,948	391
Other assets	28,112	28,149
Intangible assets – net *(note 6b)*	15,527	21,644
Goodwill *(note 6a)*	127,113	127,113
Total assets	3,053,391	3,144,729
LIABILITIES AND EQUITY		
Current		
Accounts payable	15,220	16,732
Accrued liabilities *(note 7)*	84,349	82,488
Due to affiliates *(note 12l)*	47,810	39,678
Current portion of derivative instruments *(note 13)*	47,748	46,396
Current portion of long-term debt *(note 8)*	248,385	229,365
Current portion of in-process revenue contracts *(note 6c)*	12,744	13,550
Total current liabilities	456,256	428,209
Long-term debt *(note 8)*	1,521,247	1,799,711
Derivative instruments *(note 13)*	213,731	244,998
In-process revenue contracts *(note 6c)*	101,294	113,202
Other long-term liabilities, including an amount due to parent of $5.2 million at December 31, 2011	26,819	35,569
Total liabilities	2,319,347	2,621,689
Commitments and contingencies *(notes 8, 9, 13, and 15)*		
Redeemable non-controlling interest *(note 15b)*	28,815	38,307
Equity		
Non-controlling interests	44,135	40,622
Partners' equity	661,152	444,665
Accumulated other comprehensive loss	(58)	(554)
Total equity	705,229	484,733
Total liabilities and total equity	3,053,391	3,144,729

Subsequent events *(note 21)*

The accompanying notes are an integral part of the consolidated financial statements.

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (notes 1 and 2)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Year Ended December 31, 2012 $	Year Ended December 31, 2011 $	Year Ended December 31, 2010 $
Cash and cash equivalents provided by (used for)			
OPERATING ACTIVITIES			
Net income (loss)	123,015	(96,871)	78,863
Non-cash items:			
Unrealized (gain) loss on derivative instruments *(note 13)*	(39,538)	107,860	5,618
Depreciation and amortization	194,631	187,710	190,341
Loss on sale of vessels	7,094	171	—
Write down of vessels	25,123	90,937	9,441
Deferred income tax recovery	(8,808)	(614)	(15,756)
Foreign currency exchange loss and other	2,546	2,672	7,251
Change in non-cash working capital items related to operating activities *(note 16)*	(17,447)	(11,296)	34,464
Expenditures for dry docking	(19,122)	(26,407)	(23,637)
Net operating cash flow	267,494	254,162	286,585
FINANCING ACTIVITIES			
Proceeds from drawdown of long-term debt	318,645	457,530	355,678
Repayments of long-term debt	(146,162)	(110,694)	(90,835)
Repayments of long-term debt relating to Dropdown Predecessors	—	—	(41,909)
Prepayments of long-term debt	(445,698)	(125,562)	(568,236)
Debt issuance costs	(4,361)	(682)	(3,371)
Purchase of 49% interest in Teekay Offshore Operating L.P.	—	(386,267)	—
Purchase of vessels from Teekay Corporation *(note 16f)*	—	(60,683)	(107,051)
Purchase of VOC equipment from Teekay Corporation *(note 12j)*	(12,848)	—	—
Proceeds from equity offerings	265,393	420,146	419,989
Expenses of equity offerings	(8,164)	(222)	(18,498)
Cash distributions paid by the Partnership	(160,905)	(129,323)	(85,077)
Cash distributions paid by subsidiaries to non-controlling interests	(8,787)	(36,980)	(77,236)
Other	(3,120)	8,055	4,946
Net financing cash flow	(206,007)	35,318	(211,600)
INVESTING ACTIVITIES			
Expenditures for vessels and equipment	(87,408)	(148,480)	(40,645)
Proceeds from sale of vessels and equipment	35,235	13,354	—
Direct financing lease payments received	17,091	20,948	22,736
Purchase of *Piranema Spirit (note 18)*	—	(161,851)	—
Net investing cash flow	(35,082)	(276,029)	(17,909)
Increase in cash and cash equivalents	26,405	13,451	57,076
Cash and cash equivalents, beginning of the year	179,934	166,483	109,407
Cash and cash equivalents, end of the year	206,339	179,934	166,483

Supplemental cash flow disclosure *(note 16)*

The accompanying notes are an integral part of the consolidated financial statements.

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (notes 1 and 2)
CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
(in thousands of U.S. dollars and units)

	PARTNERS' EQUITY									
		Limited Partners								
	Dropdown Predecessor Equity $	Common Units	$	Subordinated Units	$	General Partner $	Accumulated Other Comprehensive Income (Loss) (Note 13) $	Non-controlling Interest $	Total Equity $	Redeemable Non-controlling Interest $
Balance as at December 31, 2009	(61,174)	27,900	348,071	9,800	(143,590)	8,584	(712)	219,692	370,871	—
Conversion of subordinated units to common units *(note 17)*	—	9,800	(143,590)	(9,800)	143,590	—	—	—	—	—
Net income	(16,685)	—	53,811	—	—	4,359	—	37,378	78,863	—
Reclassification of redeemable non-controlling interest in net income	—	—	—	—	—	—	—	(806)	(806)	806
Other comprehensive loss	—	—	—	—	—	—	(800)	(20)	(820)	—
Cash distributions	(1,878)	—	(80,766)	—	—	(4,311)	—	(73,091)	(160,046)	(2,267)
Proceeds from follow-on public offering, net of offering costs of $18,498 *(note 17)*	—	17,538	393,091	—	—	8,400	—	—	401,491	—
Dilution loss on initiation of majority owned subsidiary *(note 15b)*	—	—	(3,714)	—	—	(76)	—	(3,642)	(7,432)	7,432
Equity contribution from non- controlling interest *(note 15b)*	—	—	—	—	—	—	—	—	—	35,754
Contribution of capital by joint venture partner	—	—	—	—	—	—	—	400	400	—
Purchase of the *Falcon Spirit* from Teekay Corporation *(note 12b)*	(4,606)	—	(6,555)	—	—	(134)	—	—	(11,295)	—
Net change in Parent's equity in Dropdown Predecessor *(note 12b, c, d)*	30,495	—	—	—	—	—	—	—	30,495	—
Purchase of the *Amundsen Spirit* from Teekay Corporation *(note 12d)*	(3,496)	—	(15,593)	—	—	(259)	—	(15,285)	(34,633)	—
Issuance of Teekay Offshore Operating L.P. units to non-controlling interests *(note 12d, e)*	—	—	—	—	—	—	—	33,469	33,469	—
Conversion of intercorporate debt to equity *(note 12e)*	—	—	—	—	—	—	—	31,470	31,470	—
Purchase of the *Nansen Spirit* from Teekay Corporation *(note 12e)*	—	—	(2,213)	—	—	(45)	—	(30,724)	(32,982)	—
Loss on acquisition of interest rate swaps *(note 12g)*	—	—	(28,514)	—	—	(582)	—	(27,965)	(57,061)	—
Purchase of the *Rio das Ostras* from Teekay Corporation *(note 12c)*	(103,245)	—	26,327	—	—	537	—	—	(76,381)	—
Net liabilities of										

Dropdown Predecessor relating to *Rio das Ostras* retained by Teekay Corporation on Dropdown *(note 12c)*	(2,406)	—	—	—	—	—	2,257	—	(149)	—
Net change in Parent's equity in Dropdown Predecessor relating to *Rio das Ostras (note 12c)*	162,995	—	—	—	—	—	—	—	162,995	—
Balance as at December 31, 2010	—	55,238	540,355	—	—	16,473	745	170,876	728,449	41,725
Net loss	(15,075)	—	(108,646)	—	—	4,396	—	22,454	(96,871)	—
Reclassification of redeemable non-controlling interest in net income	—	—	—	—	—	—	—	(6,601)	(6,601)	6,601
Other comprehensive (loss) income	—	—	—	—	—	—	(2,461)	435	(2,026)	—
Cash distributions	—	—	(121,152)	—	—	(8,171)	—	(26,961)	(156,284)	(10,019)
Contribution of capital by joint venture partner	—	—	—	—	—	—	—	3,750	3,750	—
Contribution of capital from Teekay Corporation to *Rio das Ostras (note 12c)*	—	—	1,960	—	—	40	—	—	2,000	—
Proceeds from equity offering, net of offering costs of $222 *(note 12h, 17)*	—	15,389	411,522	—	—	8,402	—	—	419,924	—
Purchase of 49% of Teekay Offshore Operating L.P. *(note 12h)*	—	—	(254,237)	—	—	(5,189)	1,162	(128,003)	(386,267)	—
Conversion of intercorporate debt to equity *(note 12f)*	—	—	—	—	—	—	—	36,905	36,905	—
Purchase of Peary Spirit LLC *(note 12f)*	—	—	(5,386)	—	—	(110)	—	(32,233)	(37,729)	—
Net change in Parent's equity in Dropdown Predecessor *(note 12i)*	12,519	—	—	—	—	—	—	—	12,519	—
Purchase of Scott Spirit LLC *(note 12i)*	2,556	—	(34,880)	—	—	(712)	—	—	(33,036)	—
Balance as at December 31, 2011	—	70,627	429,536	—	—	15,129	(554)	40,622	484,733	38,307
Net income	—	—	111,902	—	—	11,055	—	58	123,015	—
Reclassification of redeemable non-controlling interest in net income	—	—	—	—	—	—	—	4,520	4,520	(4,520)
Other comprehensive income	—	—	—	—	—	—	496	—	496	—
Cash distributions	—	—	(149,631)	—	—	(11,274)	—	(3,815)	(164,720)	(4,972)
Contribution of capital by joint venture partner	—	—	—	—	—	—	—	2,750	2,750	—
Proceeds from equity offering, net of offering costs of $8,164 *(note 17)*	—	9,479	251,921	—	—	5,308	—	—	257,229	—
Purchase of VOC equipment from Teekay Corporation *(note 12j)*	—	—	(2,738)	—	—	(56)	—	—	(2,794)	—
Balance as at December 31, 2012	—	80,106	640,990	—	—	20,162	(58)	44,135	705,229	28,815

The accompanying notes are an integral part of the consolidated financial statements.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

1. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). These financial statements include the accounts of Teekay Offshore Partners L.P., which is a limited partnership organized under the laws of the Republic of The Marshall Islands, its wholly owned or controlled subsidiaries and the Dropdown Predecessor (see note 2). As discussed in note 19, the Partnership disposed of certain conventional tankers during the period. The Partnership has retrospectively adjusted its prior period consolidated financial statements to comparably classify the amounts related to the operations of these conventional tankers as discontinued operations.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the balance sheet and accompanying notes. Actual results may differ from those estimates.

The Partnership presents non-controlling ownership interests in subsidiaries in the consolidated financial statements within the equity section, but separate from the Partners' equity. However, in instances in which certain redemption features that are not solely within the control of the issuer are present, classification of non-controlling interests outside of permanent equity is required. The holder of the non-controlling interest of one of the Partnership's subsidiaries holds a put option which, if exercised, would obligate the Partnership to purchase the non-controlling interest (see note 15b). As a result, the non-controlling interest that is subject to this redemption feature is not included on the Partnership's consolidated balance sheet as part of the total equity and is presented as redeemable non-controlling interest above the equity section but below the liabilities section on the Partnership's consolidated balance sheet.

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period relating to the reclassification of certain financing cash flow items into other financing cash flows on the Partnership's consolidated statements of cash flows.

Foreign currency

The consolidated financial statements are stated in U.S. Dollars and the functional currency of the Partnership and its subsidiaries is the U.S. Dollar. Transactions involving other currencies during the year are converted into U.S. dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities that are denominated in currencies other than the U.S. dollar are translated to reflect the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of income (loss).

Operating revenues and expenses

The Partnership recognizes revenues from time charters and bareboat charters daily over the term of the charter as the applicable vessel operates under the charter. The Partnership does not recognize revenue during days that the vessel is off hire. Shuttle tanker voyages servicing contracts of affreightment with offshore oil fields commence with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. Receipt of incentive-based revenue from the Partnership's floating, production, storage and offloading (or *FPSO*) units is dependent upon its operating performance and such revenue is recognized when earned by fulfillment of the applicable performance criteria. Time-charter contracts that are accounted for as direct financing leases are reflected on the balance sheets as net investments in direct financing leases. The lease revenue is recognized on an effective interest rate method over the lease term and is included in revenues. All other revenues from voyage charters are recognized on a percentage of completion method. The Partnership used a discharge-to-discharge basis in determining percentage of completion for all voyage charters, whereby it recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. The Partnership does not begin recognizing revenue until a charter has been agreed to by the customer and the Partnership, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. The consolidated balance sheets reflect the deferred portion of revenues and expenses, which will be earned or incurred, respectively, in subsequent periods.

Voyage expenses are all expenses unique to a particular voyage, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Voyage expenses and vessel operating expenses are recognized when incurred.

Cash and cash equivalents

The Partnership classifies all highly liquid investments with an original maturity date of three months or less when purchased as cash and cash equivalents.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Partnership's best estimate of the amount of probable credit losses in existing accounts receivable. The Partnership determines the allowance based on historical write-off experience and customer economic data. The Partnership reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged off against the allowance when the Partnership believes that the receivable will not be recovered.

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Vessels and equipment

All pre-delivery costs incurred during the construction of newbuildings, including interest, supervision and technical costs, are capitalized. The acquisition cost and all costs incurred to restore used vessels purchased by the Partnership to the standards required to properly service the Partnership's customers are capitalized.

Vessel capital modifications include the addition of new equipment or can encompass various modifications to the vessel which are aimed at improving and/or increasing the operational efficiency and functionality of the asset. This type of expenditure is amortized over the estimated useful life of the modification. Expenditures covering recurring routine repairs or maintenance are expensed as incurred.

Depreciation is calculated on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. Depreciation is calculated using an estimated useful life of 20 to 25 years for conventional and shuttle tankers and 20 to 25 years for FPSO units, commencing the date the vessel is delivered from the shipyard, or a shorter period if regulations prevent the Partnership from operating the vessel for the estimated useful life. Floating storage and off take (or FSO) units are depreciated over the term of the contract. Depreciation of vessels and equipment (including depreciation attributable to the Dropdown Predecessor) for the years ended December 31, 2012, 2011, and 2010, totalled $161.2 million, $146.2 million, and $142.7 million, respectively. Depreciation and amortization includes depreciation on all owned vessels.

Interest costs capitalized to vessels and equipment for the years ended December 31, 2012, 2011, and 2010 totaled $1.5 million, $5.9 million and $10.9 million, respectively.

Generally, the Partnership dry docks each shuttle tanker and conventional oil tanker every two and a half to five years. FSO and FPSO units are generally not dry docked. The Partnership capitalizes a portion of the costs incurred during dry docking and amortizes those costs on a straight-line basis from the completion of a dry docking over the estimated useful life of the dry dock. The Partnership includes in capitalized dry docking those costs incurred as part of the dry docking to meet regulatory requirements, or expenditures that either add economic life to the vessel, increase the vessel's earning capacity or improve the vessel's operating efficiency. The Partnership expenses costs related to routine repairs and maintenance performed during dry docking that do not improve operating efficiency or extend the useful lives of the assets.

Dry-docking activity for the three years ended December 31, 2012, 2011, and 2010 is summarized as follows:

	Year Ended December 31, 2012 $	Year Ended December 31, 2011 $	Year Ended December 31, 2010 $
Balance at beginning of the year	60,158	71,349	86,134
Cost incurred for dry docking	19,101	24,507	24,869
Dry-docking amortization	(27,354)	(34,466)	(39,654)
Write down / sale of capitalized dry-dock expenditure	(5,996)	(1,232)	—
Balance at end of the year	45,909	60,158	71,349

Vessels and equipment that are "held and used" are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the net undiscounted cash flows expected to be generated over its remaining useful life, the carrying amount of the asset is reduced to its estimated fair value. The estimated fair value for the Partnership's impaired vessels is determined using discounted cash flows or appraised values. In cases where an active second hand sale and purchase market does not exist, the Partnership uses a discounted cash flow approach to estimate the fair value of an impaired vessel. In cases where an active second hand sale and purchase market exists an appraised value is used to estimate the fair value of an impaired vessel. An appraised value is generally the amount the Partnership would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Partnership.

Direct financing leases

The Partnership employs a number of vessels on long-term time charters and assembles, installs, operates and leases equipment that reduces volatile organic compound emissions (or *VOC equipment*) during loading, transportation and storage of oil and oil products. The long-term time charters and the leasing of some VOC equipment are accounted for as direct financing leases, with lease payments received by the Partnership being allocated between the net investment in the lease and other income using the effective interest method so as to produce a constant periodic rate of return over the lease term.

Debt issuance costs

Debt issuance costs, including fees, commissions and legal expenses, are deferred and presented as other non-current assets and amortized on an effective interest rate method over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense.

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Goodwill and intangible assets

Goodwill is not amortized, but reviewed for impairment at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. When goodwill is reviewed for impairment, the Partnership may elect to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Partnership may bypass this step and use a fair value approach to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Partnership uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value. Intangible assets are assessed for impairment when and if impairment indicators exist. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

The Partnership's intangible assets are amortized over their respective lives with the amount amortized each year being weighted based on the projected revenue to be earned under the contracts.

Derivative instruments

All derivative instruments are initially recorded at fair value as either assets or liabilities in the accompanying consolidated balance sheets and subsequently remeasured to fair value, regardless of the purpose or intent for holding the derivative. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and also qualifies for hedge accounting. The Partnership does not apply hedge accounting to its derivative instruments, except for certain foreign exchange currency contracts and certain types of interest rate swaps that it may enter into the future (see note 13).

When a derivative is designated as a cash flow hedge, the Partnership formally documents the relationship between the derivative and the hedged item. This documentation includes the strategy and risk management objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge. Any hedge ineffectiveness is recognized immediately in earnings, as are any gains and losses on the derivative that are excluded from the assessment of hedge effectiveness. The Partnership does not apply hedge accounting if it is determined that the hedge was not effective or will no longer be effective, the derivative was sold or exercised, or the hedged item was sold, repaid or no longer possible of occurring.

For derivative financial instruments designated and qualifying as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are initially recorded as a component of accumulated other comprehensive income in equity. In the periods when the hedged items affect earnings, the associated fair value changes on the hedging derivatives are transferred from equity to the corresponding earnings line item in the consolidated statements of income (loss). The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in the consolidated statements of income (loss). If a cash flow hedge is terminated and the originally hedged items is still considered possible of occurring, the gains and losses initially recognized in equity remain there until the hedged item impacts earnings, at which point they are transferred to the corresponding earnings line item in the consolidated statements of income (loss). If the hedged items are no longer possible of occurring, amounts recognized in equity are immediately transferred to the earnings line item in the consolidated statements of income (loss). Gains and losses from the Partnership's hedge accounted foreign currency forward contracts are recorded primarily in vessel operating expenses and general and administrative expenses.

For derivative financial instruments that are not designated or that do not qualify as accounting hedges under Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 815, *Derivatives and Hedging* , the changes in the fair value of the derivative financial instruments are recognized in earnings. Gains and losses from the Partnership's non-designated foreign currency forward contracts and interest rate swaps are recorded in realized and unrealized gains (losses) on derivative instruments in the consolidated statements of income (loss). Gains and losses from the Partnership's non-designated cross currency swaps are recorded in foreign currency exchange gain (loss) in the consolidated statements of income (loss).

Employee pension plans

The Dropdown Predecessor has defined benefit pension plans covering certain of its employees. The Dropdown Predecessor accrues the costs and related obligations associated with its defined benefit pension plans based on actuarial computations using the projected benefits obligation method and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The overfunded or underfunded status of the defined benefit pension plan is recognized as assets or liabilities in the consolidated balance sheets. Gains or losses that arise during a period but that are not recognized as part of net periodic benefit costs in the current period are recognized as a component of accumulated other comprehensive income (loss).

Income taxes

The Partnership's Norwegian, Australian and Brazilian subsidiaries are subject to income taxes. The Partnership accounts for such taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Partnership's assets and liabilities using the applicable jurisdictional tax rates. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

Recognition of uncertain tax positions is dependent upon whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the consolidated financial statements based on guidance in the interpretation. The Partnership recognizes interest and penalties related to uncertain tax positions in income tax expense.

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Accumulated other comprehensive income (loss)

The following table contains the changes in the balances of each component of accumulated other comprehensive income (loss) for the periods presented:

	Qualifying Cash Flow Hedging Instruments $	Pension Adjustments $	Total $
Balance as at December 31, 2009	765	(1,477)	(712)
Other comprehensive income (loss)	109	(909)	(800)
Net liabilities of Dropdown Predecessor relating to *Rio das Ostras* retained by Teekay Corporation on Dropdown *(note 12c)*	(129)	2,386	2,257
Balance as at December 31, 2010	745	—	745
Other comprehensive loss	(2,461)	—	(2,461)
Purchase of 49% of Teekay Offshore Operating L.P.	1,162	—	1,162
Balance as at December 31, 2011	(554)	—	(554)
Other comprehensive income	496	—	496
Balance as at December 31, 2012	(58)	—	(58)

2. Dropdown Predecessor

The Partnership has accounted for the acquisition of interests in vessels from Teekay Corporation as a transfer of a business between entities under common control. The method of accounting for such transfers is similar to the pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. The excess of the proceeds paid, if any, by the Partnership over Teekay Corporation's historical cost is accounted for as an equity distribution to Teekay Corporation. In addition, transfers of net assets between entities under common control are accounted for as if the transfer occurred from the date that the Partnership and the acquired vessels were both under the common control of Teekay Corporation and had begun operations. As a result, the Partnership's financial statements prior to the date the interests in these vessels were actually acquired by the Partnership are retroactively adjusted to include the results of these vessels (the *Falcon Spirit*, the *Cidade de Rio das Ostras* (or *Rio das Ostras*), the *Amundsen Spirit* and the *Scott Spirit* , collectively referred to herein as the *Dropdown Predecessor*) during the periods they were under common control of Teekay Corporation.

On April 1, 2010, the Partnership acquired from Teekay Corporation an FSO unit, the *Falcon Spirit* , together with its time-charter-out contract. To account for the common control transfer of the *Falcon Spirit* , the Partnership's net income and comprehensive income on the Partnership's financial statements were increased by $0.9 million for the year ended December 31, 2010.

On October 1, 2010, the Partnership acquired from Teekay Corporation an FPSO unit, the *Rio das Ostras* . The Partnership's financial statements to account for the common control transfer of the *Rio das Ostras* FPSO unit decreased the Partnership's net income and comprehensive income by ($8.3) million and ($9.1) million, respectively, for the year ended December 31, 2010.

On October 1, 2010, the Partnership acquired from Teekay Corporation a shuttle tanker unit, the *Amundsen Spirit* . The Partnership's financial statements to account for the common control transfer of the *Amundsen Spirit* shuttle tanker decreased the Partnership's net income and comprehensive income by ($9.3) million, for the year ended December 31, 2010.

On October 1, 2011, the Partnership acquired from Teekay Corporation a shuttle tanker unit, the *Scott Spirit* . The Partnership's financial statements to account for the common control transfer of the *Scott Spirit* shuttle tanker increased the Partnership's net loss and comprehensive loss by $15.1 million, for the year ended December 31, 2011.

Teekay Corporation uses a centralized treasury system. As a result, cash and cash equivalents attributable to the operations of the Dropdown Predecessor were in certain cases co-mingled with cash and cash equivalents from other operations of Teekay Corporation. This cash and cash equivalents are not reflected in the balance sheet of the Dropdown Predecessor. However, any cash transactions from these bank accounts that were made on behalf of companies in the Dropdown Predecessor, which were acquired by the Partnership, are reflected as increases or decreases of advances from affiliates. Any other cash transactions from these bank accounts that were directly related to the operations of the Dropdown Predecessor are reflected as increases or decreases in owner's equity in the Partnership's financial statements.

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For periods prior to the Partnership's acquisition of the *Rio das Ostras* , the vessel was used as collateral for certain credit facilities (*Rio das Ostras Credit Facility*). The *Rio das Ostras'* pro-rata share of the Rio das Ostras Credit Facility has been allocated to the Dropdown Predecessor. The pro-rata share was determined using the relative fair value of the Rio das Ostras business compared to the fair value of all net assets used as collateral for this facility. The Rio das Ostras Credit Facility was used to partially finance the purchase of this unit. Interest has been allocated to the Dropdown Predecessor based on the *Rio das Ostras* respective share of this facility. In addition, Teekay Corporation used certain of its corporate facilities to finance the remaining portion of the acquisition of the *Rio das Ostras* . Interest has been allocated to the Dropdown Predecessor based on the amount drawn on this facility at the time of the acquisition and Teekay Corporation's weighted average borrowing cost. In addition, Teekay Corporation had entered into certain interest rate swaps. The *Rio das Ostras'* pro-rata share of these interest rate swaps has been allocated to the Dropdown Predecessor. The pro-rata share was determined using the relative collateral fair values of the *Rio das Ostras* Credit Facilities.

General and administrative expenses (consisting primarily of salaries, defined benefit pension plan benefits, and other employee related costs, office rent, legal and professional fees, and travel and entertainment) were allocated to the Dropdown Predecessor based on estimated use of resources. In addition, Teekay Corporation entered into certain foreign exchange forward contracts to minimize the impact from changes in the foreign exchange rate between the Norwegian Kroner and the US Dollar on its operating expenditures. A portion of these foreign exchange forward contracts have been accounted for as hedges and were allocated to the Dropdown Predecessor based on the relative amount of Norwegian Kroner expenditures from the *Rio das Ostras* compared to Teekay Corporation's other operations for which the contracts were entered into.

The consolidated financial statements reflect the consolidated financial position, results of operations and cash flows of the Partnership and its subsidiaries, including, as applicable, the Dropdown Predecessor. In the preparation of these consolidated financial statements, general and administrative expenses, interest expense and realized and unrealized gains (losses) on non-designated derivative instruments were not identifiable as relating solely to each specific vessel. Amounts have been allocated to the Dropdown Predecessor for general and administrative expenses, interest expense and realized and unrealized gains (losses) on non-designated derivative instruments for the years ended December 31, 2011 and 2010, respectively (see notes 12b, c, d, and i). Management believes these allocations reasonably present the general and administrative expenses, interest expense, and realized and unrealized gains (losses) on non-designated derivative instruments of the Dropdown Predecessor. Estimates have been made when allocating expenses from Teekay Corporation to the Dropdown Predecessor and such estimates may not be reflective of actual results.

3. Adoption of New Accounting Pronouncements

In January 2012, the Partnership adopted an amendment to FASB ASC 820, *Fair Value Measurement* , which clarifies or changes the application of existing fair value measurements, including: that the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets; that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds that instrument as an asset; to permit an entity to measure the fair value of certain financial instruments on a net basis rather than based on its gross exposure when the reporting entity manages its financial instruments on the basis of such net exposure; that in the absence of a Level 1 input, a reporting entity should apply premiums and discounts when market participants would do so when pricing the asset or liability consistent with the unit of account; and that premiums and discounts related to size as a characteristic of the reporting entity's holding are not permitted in a fair value measurement. The adoption of this standard did not have an impact on the Partnership's consolidated financial statements other than the disclosures as presented in note 4 – Financial Instruments.

4. Financial Instruments

a) Fair value measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents - The fair value of the Partnership's cash and cash equivalents approximate their carrying amounts reported in the accompanying consolidated balance sheets due to the current nature of the amounts.

Vessels and equipment and vessels held for sale – The estimated fair value of the Partnership's vessels and equipment and vessels held for sale is determined based on discounted cash flows or appraised values. In cases where an active second hand sale and purchase market does not exist, the Partnership uses a discounted cash flow approach to estimate the fair value of an impaired vessel. In cases where an active second hand sale and purchase market exists, an appraised value is generally the amount the Partnership would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Partnership.

In December 2012, the Partnership determined that a shuttle tanker, *Navion Norvegia* , was impaired and wrote down the carrying value of this vessel to its estimated fair value of $18.0 million, due to a change in operating plan for this vessel. The Partnership used a discounted cash flow approach to value the vessel. Such a technique used estimates of future operating life (2.2 years based on the estimated remaining trading life of this vessel), future revenues ($37.2 million based on field production forecasts and the availability of contracts of affreightments suitable for the vessel), operating and dry-dock expenditures ($20.5 million), a residual value ($6.5 million based on the vessel's light weight tonnage and the price of steel), and a discount rate (7.9%) that approximates the weighted average cost of capital of a market participant.

Contingent consideration liability – On October 1, 2011, the Partnership acquired from Teekay Corporation a newbuilding shuttle tanker, the *Scott Spirit* , for $116.0 million. The purchase price is subject to adjustment for up to an additional $12 million based upon incremental shuttle tanker revenues above projections used for the sales price valuation generated during the two years following the acquisition. The fair value of the liability is the estimated amount that the Partnership would pay Teekay Corporation on September 30, 2012 and 2013, taking into account the Partnership's secured contracts, new projects, and forecasted revenues. The estimated amount is the present value of the future cash flows.

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Changes in fair value during the year ended December 31, 2012 and 2011, for the Partnership's contingent consideration liability, relating to the acquisition of the *Scott Spirit* (see note 12i), that is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Year Ended December 31, 2012 $	 December 31, 2011 $
Fair value at beginning of period	(10,894)	—
Initial liability included in Partners' equity	—	(10,082)
Partial settlement of liability	5,870	—
Unrealized loss included in Other income - net	(657)	(812)
Fair value at end of period	(5,681)	(10,894)

The estimated fair value of the Partnership's contingent consideration liability is based in part upon the Partnership's projection of incremental revenue secured during the period from September 1, 2011 to October 1, 2013, based primarily on the estimated number of new ship days, the daily rate for those new ship days, pursuant to new contracts, and the change in rate on existing ship days. The estimated fair value of the consideration liability as of December 31, 2012 is based upon estimated new ship days of 219 days (787 days – December 31, 2011) at an average daily hire rate of $59,255 ($53,043 – December 31, 2011) and a net increase in the daily rate of $15,532 ($nil – December 31, 2011) for 365 (nil – December 31, 2011) existing ship days. In developing and evaluating these estimates, the Partnership has used the actual number of new ship days and corresponding daily hire rate for the period subsequent to September 30, 2011, but prior to the date of valuation, forecasts for future periods and probabilities of such results, as well as the minimum (zero) and maximum ($12.0 million) payout amount as provided for in the contingent consideration formula. A different number of days, average daily hire rates, or probability of achieving these days and average daily hire rate, would result in a lower fair value liability. On October 1, 2012, the Partnership repaid a portion of the liability, which at the repayment date was $5.9 million.

Long-term debt – The fair values of the Partnership's variable-rate long-term debt are either based on quoted market prices or estimated using discounted cash flow analyses, based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Partnership.

Derivative instruments – The fair value of the Partnership's derivative instruments is the estimated amount that the Partnership would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates, foreign exchange rates and the current credit worthiness of both the Partnership and the derivative counterparties. The estimated amount is the present value of future cash flows. The Partnership transacts all of its derivative instruments through investment-grade rated financial institutions at the time of the transaction and requires no collateral from these institutions. Given the current volatility in the credit markets, it is reasonably possible that the amount recorded as a derivative liability could vary by a material amount in the near term.

The Partnership categorizes its fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis, as well as the estimated fair value of the Partnership's financial instruments that are not accounted for at fair value on a recurring basis.

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	Fair Value Hierarchy	December 31, 2012 Carrying Amount Asset (Liability)	December 31, 2012 Fair Value Asset (Liability)	December 31, 2011 Carrying Amount Asset (Liability)	December 31, 2011 Fair Value Asset (Liability)
	Level	$	$	$	$
Recurring:					
Cash and cash equivalents	Level 1	206,339	206,339	179,934	179,934
Contingent consideration	Level 3	(5,681)	(5,681)	(10,894)	(10,894)
Derivative instruments *(note 13)*					
Interest rate swap agreements	Level 2	(270,731)	(270,731)	(297,979)	(297,979)
Cross currency swap agreement	Level 2	13,435	13,435	2,677	2,677
Foreign currency forward contracts	Level 2	2,153	2,153	(1,078)	(1,078)
Non-Recurring:					
Vessels held for sale	Level 2	13,250	13,250	19,000	19,000
Vessels and equipment *(note 19)*	Level 3	17,979	17,979	—	—
Vessels and equipment *(note 19)*	Level 2	—	—	42,848	42,848
Other:					
Long-term debt - public *(note 8)*	Level 1	(215,641)	(221,086)	(100,417)	(100,969)
Long-term debt - non-public *(note 8)*	Level 2	(1,553,991)	(1,452,136)	(1,928,659)	(1,800,110)

b) Financing receivables

The following table contains a summary of the Partnership’s financing receivables by type of borrower and the method by which the Partnership monitors the credit quality of its financing receivables on a quarterly basis:

	Credit Quality Indicator	Grade	Year Ended December 31, 2012 $	Year Ended December 31, 2011 $
Direct financing leases	Payment activity	Performing	33,215	50,306

5. Segment Reporting

The Partnership is engaged in the international marine transportation of crude oil and in the offshore processing and storage of crude oil through the operation of its oil tankers, FSO units and FPSO units. The Partnership’s revenues are earned in international markets.

The Partnership has four reportable segments: its shuttle tanker segment; its FPSO segment; its conventional tanker segment; and its FSO segment. The Partnership’s shuttle tanker segment consists of shuttle tankers operating primarily on fixed-rate contracts of affreightment, time-charter contracts or bareboat charter contracts. The Partnership’s FPSO segment consists of its FPSO units to service its FPSO contracts. The Partnership’s conventional tanker segment consists of conventional tankers operating on fixed-rate, time-charter contracts or bareboat charter contracts. The results below exclude five conventional tankers as they are determined to be discontinued operations. The Partnership’s FSO segment consists of its FSO units subject to fixed-rate, time-charter contracts or bareboat charter contracts. Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Partnership’s consolidated financial statements.

The following table presents revenues and percentage of consolidated revenues for customers that accounted for more than 10% of the Partnership’s consolidated revenues from continuing operations during the periods presented.

(U.S. dollars in millions)	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Petrobras Transporte S.A (1)	$259.3 or 28%	$211.8 or 24%	$179.6 or 21%
Statoil ASA (2)	$198.0 or 21%	$206.0 or 24%	$236.0 or 28%
Talisman Energy Inc (3)	$123.0 or 13%	$113.1 or 13%	$106.2 or 13%
Teekay Corporation (4) (5)	$ 89.1 or 10%	$ 94.8 or 11%	$ 81.1 or 10%

(1) Shuttle tanker and FPSO segments
(2) Shuttle tanker segment
(3) FPSO segment
(4) Shuttle tanker, conventional tanker and FSO segments
(5) Excludes the results of five conventional tankers as they have been determined to be discontinued operations.

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The following tables include results for these segments for the periods presented in these consolidated financial statements.

Year ended December 31, 2012	Shuttle Tanker Segment	FPSO Segment	Conventional Tanker Segment	FSO Segment	Total
Revenues	569,519	231,688	62,029	62,901	926,137
Voyage expenses	104,394	—	11,317	400	116,111
Vessel operating expenses	135,993	100,668	11,663	36,388	284,712
Time-charter hire expense	56,989	—	—	—	56,989
Depreciation and amortization	122,921	50,905	10,519	9,038	193,383
General and administrative (1)	45,110	22,395	3,189	3,705	74,399
Write down of vessels	23,430	—	—	—	23,430
Loss on sale of vessels	1,112	—	—	—	1,112
Restructuring charge	647	—	468	—	1,115
Income from vessel operations	78,923	57,720	24,873	13,370	174,886
Expenditures for vessels and equipment (2)	83,491	3,055	598	264	87,408
Expenditures for dry docking	14,977	—	70	4,054	19,101

Year ended December 31, 2011	Shuttle Tanker Segment	FPSO Segment	Conventional Tanker Segment	FSO Segment	Total
Revenues	573,296	173,836	63,638	62,731	873,501
Voyage expenses	95,864	—	9,125	1,388	106,377
Vessel operating expenses	161,890	76,716	10,887	30,470	279,963
Time-charter hire expense	74,478	—	—	—	74,478
Depreciation and amortization	115,637	37,496	11,341	12,009	176,483
General and administrative (1)	49,444	15,474	2,809	3,779	71,506
Write down of vessels	28,270	—	—	8,598	36,868
Loss on sale of vessels	—	—	—	171	171
Restructuring charge	1,227	—	—	2,697	3,924
Income from vessel operations	46,486	44,150	29,476	3,619	123,731
Expenditures for vessels and equipment (2)	130,363	16,038	2,313	(234)	148,480
Expenditures for dry docking	16,892	—	670	6,945	24,507

Year ended December 31, 2010	Shuttle Tanker Segment	FPSO Segment	Conventional Tanker Segment	FSO Segment	Total
Revenues	559,547	151,851	54,967	74,298	840,663
Voyage expenses	104,460	—	8,160	888	113,508
Vessel operating expenses	143,766	66,157	10,424	35,214	255,561
Time-charter hire expense	89,795	—	—	—	89,795
Depreciation and amortization	111,157	35,400	12,042	16,262	174,861
General and administrative (1)	42,526	12,388	2,479	3,799	61,192
Write down of vessels	9,441	—	—	—	9,441
Restructuring charge	119	—	—	—	119
Income from vessel operations	58,283	37,906	21,862	18,135	136,186
Expenditures for vessels and equipment (2)	32,012	6,428	1,179	1,026	40,645
Expenditures for dry docking	13,382	—	11,487	—	24,869

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of corporate resources).
(2) Excludes non-cash investing activities (see note 16).

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A reconciliation of total segment assets to total assets presented in the accompanying consolidated balance sheets is as follows:

	December 31, 2012 $	December 31, 2011 $
Shuttle tanker segment	1,758,619	1,805,639
FPSO segment	752,835	786,391
Conventional tanker segment	178,172	223,388
FSO segment	79,629	101,422
Unallocated:		
Cash and cash equivalents	206,339	179,934
Other assets	77,797	47,955
Consolidated total assets	3,053,391	3,144,729

6 . Goodwill, Intangible Assets and In-Process Revenue Contracts

a) Goodwill

The carrying amount of goodwill for the shuttle tanker segment was $127.1 million as at December 31, 2012 and 2011. In 2012 and 2011, the Partnership conducted a goodwill impairment review of its shuttle tanker segment and concluded that no impairment had occurred.

b) Intangible Assets

As at December 31, 2012, intangible assets consisted of:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer contracts (shuttle tanker segment)	124,250	(109,153)	15,097
Customer contracts (FPSO segment)	353	(313)	40
Other intangible assets (FPSO segment)	390	—	390
	124,993	(109,466)	15,527

As at December 31, 2011, intangible assets consisted of:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer contracts (shuttle tanker segment)	124,250	(103,116)	21,134
Customer contracts (FPSO segment)	353	(233)	120
Other intangible assets (FPSO segment)	390	—	390
	124,993	(103,349)	21,644

Aggregate amortization expense of intangible assets for the year ended December 31, 2012 was $6.0 million (2011 - $7.1 million, 2010 - $8.1 million), included in depreciation and amortization on the consolidated statements of income (loss) income. Amortization of intangible assets for the five years subsequent to December 31, 2012 is expected to be $5.0 million (2013), $4.0 million (2014), $3.0 million (2015), $2.0 million (2016), $1.1 million (2017) and nil thereafter. Other intangible assets is a trade name which is not amortized.

c) In-Process Revenue Contracts

As part of the Partnership's acquisition of the *Piranema Spirit* (see note 18) on November 30, 2011, the Partnership assumed an FPSO service contract with terms that were less favorable than the then prevailing market terms. As at December 31, 2012, the Partnership has recognized a liability based on the estimated fair value of the contract. The Partnership is amortizing this liability over the estimated remaining term of the contract on a weighted basis based on the projected revenue to be earned under the contract.

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Amortization of in-process revenue contracts for the year ended December 31, 2012 was $12.7 million (2011 - $1.1 million), which is included in revenues on the consolidated statements of income (loss). Amortization for the five years subsequent to December 31, 2012 is expected to be $12.7 million (2013), $12.7 million (2014), $12.7 million (2015), $12.8 million (2016), $12.7 million (2017) and $50.4 million (thereafter).

7. Accrued Liabilities

	December 31, 2012	December 31, 2011
	$	$
Voyage and vessel	59,772	58,406
Interest	14,713	14,787
Payroll and benefits	9,864	9,295
	84,349	82,488

8. Long-Term Debt

	December 31, 2012	December 31, 2011
	$	$
U.S. Dollar-denominated Revolving Credit Facilities due through 2018	812,509	1,246,360
Norwegian Kroner Bonds due in 2013 and 2017	215,641	100,417
U.S. Dollar-denominated Term Loans due through 2018	213,993	238,867
U.S. Dollar-denominated Term Loans due through 2023	527,489	443,432
	1,769,632	2,029,076
Less current portion	248,385	229,365
Total	1,521,247	1,799,711

As at December 31, 2012, the Partnership had eight long-term revolving credit facilities, which, as at such date, provided for borrowings of up to $1.03 billion, of which $213.5 million was undrawn. The total amount available under the revolving credit facilities reduces by $314.2 million (2013), $608.9 million (2014), $17.5 million (2015), $26.0 million (2016), $20.9 million (2017) and $38.4 million (2018). Six of the revolving credit facilities are guaranteed by the Partnership and certain of its subsidiaries for all outstanding amounts and contain covenants that require the Partnership to maintain the greater of a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) of at least $75.0 million and 5.0% of the Partnership's total consolidated debt. Two revolving credit facilities are guaranteed by Teekay Corporation and contain covenants that require Teekay Corporation to maintain the greater of a minimum liquidity (cash and cash equivalents) of at least $50.0 million and 5.0% of Teekay Corporation's total consolidated debt which has recourse to Teekay Corporation. The revolving credit facilities are collateralized by first-priority mortgages granted on 29 of the Partnership's vessels, together with other related security.

The Partnership has NOK 600 million in senior unsecured bonds that mature in November 2013 in the Norwegian bond market. As at December 31, 2012, the carrying amount of the bonds was $107.8 million. The bonds are listed on the Oslo Stock Exchange. Interest payments on the bonds are based on NIBOR plus a margin of 4.75%. The Partnership entered into a cross currency swap to swap the interest payments from NIBOR plus a margin of 4.75% into LIBOR plus a margin of 5.04% and lock in the transfer of the principal amount at $98.5 million upon maturity in exchange for NOK 600 million. The Partnership also entered into an interest rate swap to swap the interest payments from LIBOR to a fixed rate of 1.12%. The floating LIBOR rate receivable from the interest rate swap is capped at 3.5%, which effectively results in a fixed rate of 1.12% unless LIBOR exceeds 3.5%, in which case the Partnership's related interest rate effectively floats at LIBOR, but reduced by 2.38% (see note 13). Subsequent to December 31, 2012, the Partnership repurchased NOK 388.5 million of this bond issue in conjunction with the issuance of NOK 1,300 million in senior unsecured bonds in the Norwegian bond market (see note 21c).

In January 2012, the Partnership issued NOK 600 million of senior unsecured bonds that mature in January 2017 in the Norwegian bond market. As at December 31, 2012, the carrying amount of the bonds was $107.8 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 5.75%. The Partnership entered into a cross currency rate swap to swap all interest and principal payments into USD, with the interest payments fixed at a rate of 7.49%, and the transfer of the principal amount fixed at $101.4 million upon maturity in exchange for NOK 600 million (see note 13).

As at December 31, 2012, the Partnership's six 50%-owned subsidiaries each had an outstanding term loan, which in the aggregate totaled $214.0 million. The term loans reduce over time with quarterly and semi-annual payments and have varying maturities through 2018. These

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term loans are collateralized by first-priority mortgages on the vessels to which the loans relate, together with other related security. As at December 31, 2012, the Partnership had guaranteed $65.6 million of these term loans, which represents its 50% share of the outstanding vessel mortgage debt of five of these 50%-owned subsidiaries. The other owner and Teekay Corporation have guaranteed the remaining $107.0 million and $41.4 million, respectively.

As at December 31, 2012, the Partnership had term loans outstanding for the shuttle tankers the *Amundsen Spirit* , the *Nansen Spirit* , the *Peary Spirit* , and the *Scott Spirit,* and for the *Rio das Ostras* and the *Piranema Spirit* FPSO units, which in aggregate totaled $527.5 million. For the term loans for the *Amundsen Spirit* and the *Nansen Spirit* , one tranche reduces in semi-annual payments while the other tranche correspondingly is drawn up every six months with final bullet payments of $29.1 million for each vessel due in 2022 and 2023, respectively. The *Rio das Ostras* , the *Peary Spirit* , the *Scott Spirit* and the *Piranema Spirit* term loans reduce over time with quarterly or semi-annual payments. These term loans have varying maturities through 2023 and are collateralized by first-priority mortgages on the vessels to which the loans relate, together with other related security. As at December 31, 2012, the Partnership had guaranteed $90.3 million of these term loans and Teekay Corporation had guaranteed $437.2 million

Interest payments on the revolving credit facilities and the term loans are based on LIBOR plus a margin. At December 31, 2012, and December 31, 2011, the margins ranged between 0.30% and 3.25%. The weighted-average effective interest rate on the Partnership's variable rate long-term debt as at December 31, 2012 was 2.0% (December 31, 2011 – 1.7%). This rate does not include the effect of the Partnership's interest rate swaps (see note 13).

The aggregate annual long-term debt principal repayments required to be made subsequent to December 31, 2012 are $248.4 million (2013), $755.9 million (2014), $82.4 million (2015), $149.3 million (2016), $293.8 million (2017) and $239.8 million (thereafter).

Obligations under the Partnership's credit facilities are secured by certain vessels, and if the Partnership is unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets. The Partnership has one revolving credit facility that requires the Partnership to maintain a vessel value to outstanding drawn principal balance ratio of a minimum of 105%. As at December 31, 2012, this ratio was 113%. The vessel value used in this ratio is the appraised values prepared by the Partnership based on second hand sale and purchase market data. A further delay in the recovery of the conventional tanker market could negatively affect this ratio.

As at December 31, 2012 the Partnership and Teekay Corporation were in compliance with all covenants in the credit facilities and long-term debt.

9. Leases

Charters-out

Time charters and bareboat charters of the Partnership's vessels to customers are accounted for as operating leases. The cost, accumulated depreciation and carrying amount of the vessels accounted for as operating leases at December 31, 2012 were $2.9 billion, $0.9 billion and $2.0 billion, respectively. As at December 31, 2012, minimum scheduled future revenues under these time charters and bareboat charters to be received by the Partnership, then in place were approximately $3.3 billion, comprised of $560.8 million (2013), $548.0 million (2014), $507.8 million (2015), $413.7 million (2016), $329.3 million (2017) and $987.1 million (thereafter).

The minimum scheduled future revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after December 31, 2012, revenue from unexercised option periods of contracts that existed on December 31, 2012, or variable or contingent revenues. In addition, minimum scheduled future revenues presented in this paragraph have been reduced by estimated off-hire time for period maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

Direct Financing Lease

Leasing of certain VOC equipment is accounted for as direct financing leases. As at December 31, 2012, the minimum lease payments receivable under the direct financing leases approximated $3.5 million (2011 - $18.9 million), including unearned income of $0.2 million (2011 - $1.4 million). As at December 31, 2012, future scheduled payments under the direct financing leases to be received by the Partnership, then in place were approximately $3.5 million, comprised of $2.5 million (2013) and $1.0 million (2014).

Leasing of the *Falcon Spirit* FSO unit is accounted for as a direct financing lease. As at December 31, 2012, the minimum lease payments receivable under the direct financing lease approximated $38.4 million (2011 - $46.8 million), including unearned income of $17.0 million (2011 - $22.5 million). The estimated unguaranteed residual value of the leased vessel is $8.5 million. As at December 31, 2012, future scheduled payments under the direct financing lease to be received by the Partnership, were approximately $38.4 million, comprised of $8.5 million (2013), $8.6 million (2014), $8.7 million (2015), $8.8 million (2016) and $3.8 million (2017).

Charters-in

As at December 31, 2012, minimum commitments owing by the Partnership under vessel operating leases by which the Partnership charters-in vessels were approximately $79.9 million, comprised of $46.2 million (2013), $26.9 million (2014) and $6.8 million (2015). The Partnership recognizes the expense from these charters, which is included in time-charter hire expense, on a straight-line basis over the firm period of the charters.

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10. Restructuring Charge

During the year ended December 31, 2012, the Partnership recognized $0.6 million of restructuring charges relating to the reorganization of the Partnership's marine operations to create better alignment with its shuttle tanker business unit to create a reduced-cost organization going forward. The Partnership expects to incur a total of $2.0 million of restructuring charges under this plan. The reorganization is expected to be completed in the first half of 2013.

During the year ended December 31, 2012, the Partnership recognized $0.5 million of restructuring charges relating to the reorganization of the Partnership's marine operations to create better alignment with its conventional tanker business unit to create a reduced-cost organization going forward. The reorganization was completed in 2012.

During the year ended December 31, 2011, the Partnership incurred $3.9 million of restructuring charges related to the sale of the *Karratha Spirit* FSO unit and the termination of the time-charter-out contract for the *Basker Spirit* shuttle tanker. During the year ended December 31, 2011, the Partnership terminated the employment of certain seafarers for these two vessels.

During the year ended December 31, 2010, the Partnership incurred $0.1 million of restructuring charges related to the reflagging of a total of seven vessels which commenced in March 2009. Under this plan, the Partnership recorded restructuring charges of approximately $4.9 million in total since the plan began in 2009.

As of December 31, 2012, 2011 and 2010, restructuring liabilities of $0.3 million, $nil and $nil were recorded in accrued liabilities on the consolidated balance sheets.

11. Other Income - Net

	Year Ended December 31, 2012 $	**Year Ended December 31, 2011 $**	**Year Ended December 31, 2010 $**
Volatile organic compound emissions plant lease income *(note 9)*	1,259	3,093	4,978
Miscellaneous	277	588	1,832
Other income – net	1,536	3,681	6,810

12. Related Party Transactions

a) The Partnership has entered into an omnibus agreement with Teekay Corporation, Teekay LNG Partners L.P., the General Partner and others governing, among other things, when the Partnership, Teekay Corporation and Teekay LNG Partners L.P. may compete with each other and certain rights of first offering on liquefied natural gas carriers, oil tankers, shuttle tankers, FSO units and FPSO units.

b) On April 1, 2010, the Partnership acquired Teekay Corporation's 100% interest in an FSO unit, the *Falcon Spirit,* together with its charter contract, for a purchase price of $44.1 million. The purchase was partially financed through proceeds from a public offering of common units. The *Falcon Spirit* is chartered to Occidental Qatar Energy Company LLC, a subsidiary of Occidental Petroleum of Qatar Ltd., on a fixed-rate time-charter contract for 7.5 years (beginning December 2009) with an option for the charterer to extend the contract for an additional 1.5 years. The *Falcon Spirit* is a conversion of a double-hull shuttle tanker built in 1986 and it began servicing the Al Raayan oil field off the coast of Qatar in December 2009.

The acquisition consisted of the Partnership acquiring Teekay Corporation's equity interest in Teekay Al Raayan LLC for $11.3 million and Teekay Corporation's interest in amounts due to Teekay Corporation from Teekay Al Raayan LLC for $32.8 million. Immediately prior to the acquisition, $11.2 million of amounts due to Teekay Corporation was converted to equity. The portion of the purchase price for the acquisition of the equity interest in Teekay Al Raayan LLC ($11.3 million) was accounted for as an equity distribution to Teekay Corporation. To the extent the purchase price was greater than the corresponding book value, the excess is reflected as a reduction in Partners' Equity and the remainder is shown as a reduction in Dropdown Predecessor Equity. The portion of the purchase price for the acquisition of the intercorporate loan ($32.8 million) was accounted for as repayment of debt.

The following costs attributable to the operations of the *Falcon Spirit* were incurred by Teekay Corporation, and have been allocated to the Partnership as part of the results of the Dropdown Predecessor:

- General and administrative expenses (consisting primarily of vessel management fees and legal and professional fees) of $0.3 million for the year ended December 31, 2010.

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- Interest expense incurred by Teekay Corporation on its credit facilities that were used to finance the acquisition of the *Falcon Spirit* of $0.4 million for the year ended December 31, 2010 .

c) On October 1, 2010, the Partnership acquired from Teekay Corporation the *Rio das Ostras* FPSO unit, which is on a long-term charter to Petroleo Brasileiro SA (or *Petrobras*), for a purchase price of $157.7 million, plus working capital of $12.4 million. Immediately prior to the acquisition, $163.0 million of amounts due to Teekay Corporation were converted to equity. The purchase price was financed through the assumption of debt of $93.8 million and the remainder was paid in cash. The purchase price is accounted for as an equity distribution to Teekay Corporation. To the extent the purchase price is less than the corresponding book value, the excess is reflected as an addition in Partners' Equity and the remainder is shown as a reduction in Dropdown Predecessor Equity. The purchase agreement provides that Teekay Corporation shall reimburse the Partnership for upgrade costs in excess of the upgrade estimate as of the closing date. During the year ended December 31, 2011, Teekay Corporation reimbursed the Partnership for $2.0 million of such upgrade costs, which is reflected as a capital contribution.

On the dropdown, certain assets and liabilities of the *Rio das Ostras* were retained by Teekay Corporation. These net assets retained by Teekay Corporation totaled $0.1 million and are accounted for as a non-cash equity distribution to Teekay Corporation.

The following costs attributable to the operations of the *Rio das Ostras* were incurred by Teekay Corporation, and have been allocated to the Partnership as part of the results of the Dropdown Predecessor:

- General and administrative expenses (consisting primarily of salaries, defined benefit pension plan benefits, and other employee related costs, office rent, legal and professional fees, and travel and entertainment) of $5.4 million for the year ended December 31, 2010.
- Interest expense incurred by Teekay Corporation on its credit facilities that were used to finance the acquisition of the *Rio das Ostras* of $2.2 million for the year ended December 31, 2010.
- Teekay Corporation uses a centralized treasury system. As a result, cash and cash equivalents attributable to the operations of the *Rio das Ostras* , prior to the acquisition of the vessel by the Partnership, were in certain cases co-mingled with cash and cash equivalents from other operations of Teekay Corporation. Cash and cash equivalents in co-mingled bank accounts are not reflected in the balance sheet of the Dropdown Predecessor. However, any cash transactions from these bank accounts that were made on behalf of the Dropdown Predecessor are reflected in these financial statements as increases or decreases in Dropdown Predecessor Equity. The net amount of these equity contributions (distributions) were $5.8 million for the period from January 1, 2010 to October 1, 2010.

d) On October 1, 2010, the Partnership acquired from Teekay Corporation its 100% interest in the Amundsen Spirit LLC, which owns the newbuilding shuttle tanker, the *Amundsen Spirit* , which is on a time charter to Statoil ASA, for a purchase price of $128.0 million. The purchase price was financed through the assumption of debt of $93.3 million, the issuance of new units of $17.0 million and $17.7 million with cash. The excess of $31.2 million of the purchase price over the book value of the net liabilities of ($3.5) million, which includes the fair value of an interest rate swap of ($25.9) million, is accounted for as an equity distribution to Teekay Corporation. Immediately prior to the acquisition, $32.7 million of amounts due to Teekay Corporation by Amundsen Spirit LLC was converted to equity.

The following costs attributable to the operations of the *Amundsen Spirit* were incurred by Teekay Corporation, and have been allocated to the Partnership as part of the results of the Dropdown Predecessor:

- General and administrative expenses (consisting primarily of vessel management fees) of $0.2 million for the year ended December 31, 2010.
- Interest expense incurred by Teekay Corporation on its credit facilities that were used to finance the acquisition of the *Amundsen Spirit* of $0.3 million for the year ended December 31, 2010 .
- Teekay Corporation entered into an interest rate swap to offset increases or decreases in the variable-rate interest payments of the credit facilities that were used to finance the acquisition of the *Amundsen Spirit* . The realized and unrealized gains (losses) on this interest rate swap allocated to the Partnership is ($5.6) million for the year ended December 31, 2010. This amount is reflected in the realized and unrealized gains (losses) on non-designated derivative instruments.

e) On October 1, 2010, the Partnership agreed to acquire from Teekay Corporation its 100% interest in the Nansen Spirit LLC, which owns the newbuilding shuttle tanker, the *Nansen Spirit* . On December 10, 2010, the *Nansen Spirit* commenced its time charter with Statoil ASA and the Partnership acquired 100% of Teekay Corporation's interest in the Nansen Spirit LLC for a purchase price of $126.3 million. The purchase price was financed through the assumption of debt of $93.3 million, the issuance of new units of $16.4 million and $16.6 million with cash. The excess of $4.4 million of the purchase price over the book value of the net assets of $28.6 million was accounted for as an equity distribution to Teekay Corporation. Immediately prior to the acquisition, $31.5 million of amounts due to Teekay Corporation by Nansen Spirit LLC was converted to equity. For the period October 1, 2010 to December 10, 2010, the Partnership consolidated Nansen Spirit LLC on its financial statements as it was considered a variable interest entity and the Partnership was the primary beneficiary.

f) On August 2, 2011, the Partnership acquired from Teekay Corporation the *Peary Spirit* for a purchase price of $134.5 million. The purchase price was financed through the assumption of debt of $96.8 million and $37.7 million with cash. The excess of $5.5 million of the

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cash portion of the purchase price over the book value of the net assets of $32.2 million is accounted for as an equity distribution to Teekay Corporation. Immediately prior to the acquisition, $36.9 million of amounts due to Teekay Corporation by Peary Spirit LLC was converted to equity of the vessel entity. For the period October 1, 2010 to August 2, 2011, the Partnership consolidated Peary Spirit LLC on its financial statements as it was considered a variable interest entity and the Partnership was the primary beneficiary.

g) On October 1, 2010, the Partnership agreed to acquire two interest rate swaps from Teekay Corporation on the same date as it would acquire the *Nansen Spirit* and the *Peary Spirit* from Teekay Corporation. The fair value of the interest rate swaps of ($57.1) million on October 1, 2010, was accounted for as an equity distribution to Teekay Corporation.

h) On March 8, 2011, the Partnership acquired Teekay Corporation's 49% interest in Teekay Offshore Operating L.P. (or *OPCO*) for a combination of $175 million in cash (less $15 million in distributions made by OPCO to Teekay Corporation between December 31, 2010 and the date of acquisition) and the issuance of 7.6 million of the Partnership's common units to Teekay Corporation and a 2% proportionate interest to the General Partner in a private placement (see note 17). The acquisition increased the Partnership's ownership of OPCO to 100%. The excess of the proceeds paid by the Partnership over Teekay Corporation's historical book value of $128.0 million for the 49% interest in OPCO was accounted for as an equity distribution to Teekay Corporation of $258.3 million.

i) On October 1, 2011, the Partnership acquired from Teekay Corporation a newbuilding shuttle tanker, the *Scott Spirit* , for $116.0 million. The purchase price is subject to adjustment for up to an additional $12 million based upon incremental shuttle tanker revenues above projections used for the sales price valuation generated during the two years following the acquisition. On December 31, 2011, the Partnership recognized a liability of $10.9 million in respect of the purchase price adjustment, of which $5.7 million is included in due to affiliates and $5.2 million is included in other liabilities. On October 1, 2012, the Partnership repaid a portion of the liability, which at the repayment date was $5.9 million. As at December 31, 2012, the outstanding liability was $5.7 million, which is included in due to affiliates. The purchase price was financed through the assumption of debt of $93.3 million and $23.0 million with cash. The excess of $35.6 million of the purchase price (including the contingent consideration liability of $10.1 million on October 1, 2011) over the book value of the net liabilities of $2.6 million, which includes the fair value of an interest rate swap of ($34.6) million, is accounted for as an equity distribution to Teekay Corporation. Immediately prior to the acquisition, $34.5 million of amounts due to Teekay Corporation by Scott Spirit LLC was converted to equity.

The following costs attributable to the operations of the *Scott Spirit* were incurred by Teekay Corporation, and have been allocated to the Partnership as part of the results of the Dropdown Predecessor:

- General and administrative expenses (consisting primarily of vessel management fees) of $0.2 million for the year ended December 31, 2011.
- Interest expense incurred by Teekay Corporation on its credit facilities that were used to finance the acquisition of the *Scott Spirit* of $0.3 million for the year ended December 31, 2011 .
- Teekay Corporation entered into an interest rate swap to offset increases or decreases in the variable-rate interest payments of the credit facilities that were used to finance the acquisition of the *Scott Spirit* . The unrealized loss on this interest rate swap allocated to the Partnership is $12.2 million for the year ended December 31, 2011. This amount is reflected in realized and unrealized (loss) gain on non-designated derivative instruments.

j) On October 1, 2012, the Partnership acquired from Teekay Corporation the VOC equipment on board the *Amundsen Spirit* , the *Nansen Spirit* , the *Peary Spirit* and the *Scott Spirit* for $12.8 million. On December 31, 2012, the Partnership recognized this liability in due to affiliates. The purchase price was financed with cash. The excess of $2.8 million of the purchase price over the net carrying value of the equipment is accounted for as an equity distribution to Teekay Corporation.

k) During the year ended, December 31, 2012, six conventional tankers, two shuttle tankers and two FSO units of the Partnership were employed on long-term time-charter-out contracts with subsidiaries of Teekay Corporation, and two conventional tankers of the Partnership were employed on long-term time-charter-out contracts with a joint venture in which Teekay Corporation has a 50% interest. During the year ended December 31, 2012, the Partnership sold one of its conventional vessels which was employed on a long-term, time-charter-out contract to a subsidiary of Teekay Corporation. In 2012, the Partnership received an early termination fee from Teekay Corporation of $14.7 million which is recorded in net income (loss) from discontinued operations on the consolidated statements of income (loss). Teekay Corporation and its wholly owned subsidiaries provide substantially all of the Partnership's commercial, technical, crew training, strategic, business development and administrative services needs. In addition, the Partnership reimburses the General Partner for expenses incurred by the General Partner that are necessary or appropriate for the conduct of the Partnership's business. Revenues (expenses) from such related party transactions were as follows:

	Year Ended December 31,		
	2012 $	2011 $	2010 $
Revenues (1)	89,075	94,751	81,105
Vessel operating expenses (2)	(5,148)	(5,562)	(4,976)
General and administrative (3)(4)	(60,296)	(59,459)	(48,716)
Interest expense (5)	(392)	(316)	(4,199)
Realized and unrealized loss on derivative instruments (6)	—	(12,186)	(5,658)

OCI	—	—	131
Related party transactions from discontinued operations [8]	35,197	72,737	58,674

(1) Revenue from long-term time-charter-out contracts and short-term time-charter-out contracts with subsidiaries or affiliates of Teekay Corporation. The year ended December 31, 2011 includes $1.2 million recovered from Teekay Corporation for penalties accrued in respect of the *Rio das Ostras* which relate to a period prior to the acquisition of the unit by the Partnership.

(2) Crew training fees charged by Teekay Corporation.
(3) Commercial, technical, strategic, business development and administrative management fees charged by Teekay Corporation and reimbursements to Teekay Corporation and our General Partner for costs incurred on the Partnership's behalf.
(4) Amounts are net of $4.9 million, $3.5 million and $3.8 million, respectively, during the years ended December 31, 2012, 2011, and 2010, of management fees for ship management services provided by the Partnership to a subsidiary of Teekay Corporation.
(5) Guarantee fee related to the final bullet payment of the *Piranema Spirit* FPSO debt facility guaranteed by Teekay Corporation during the year ended December 31, 2012, interest paid to Teekay Corporation for financing the Partnership's acquisition of an FPSO unit during the year ended December 31, 2010 and interest allocated from Teekay Corporation as a result of the Dropdown Predecessor during the years ended December 31, 2011 and 2010.
(6) Realized/Unrealized losses on interest rate swaps allocated from Teekay Corporation as a result of the Dropdown Predecessor.
(7) Other comprehensive income (or *OCI*) relating to hedging and designated foreign currency forward contracts allocated from Teekay Corporation as a result of the Dropdown Predecessor.
(8) Related party transactions relating to five conventional tankers determined to be discontinued operations. This includes revenue from long-term time-charter-out contracts with subsidiaries or affiliates of Teekay Corporation, including the early termination fee described above; crew training fees charged by Teekay Corporation accounted for as vessel operating expenses; and commercial, technical, strategic and business development management fees charged by Teekay Corporation.

l) At December 31, 2012, due from affiliates totaled $29.7 million (December 31, 2011 - $6.1 million) and due to affiliates totaled $47.8 million (December 31, 2011 - $39.7 million). Due to and from affiliates are non-interest bearing and unsecured and are expected to be settled within the next fiscal year in the normal course of operations.

13. Derivative Instruments

The Partnership uses derivatives to manage certain risks in accordance with its overall risk management policies.

Foreign Exchange Risk

The Partnership economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts. Certain foreign currency forward contracts are designated, for accounting purposes, as cash flow hedges of forecasted foreign currency expenditures.

As at December 31, 2012, the Partnership was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (thousands)	Fair Value / Carrying Amount of Asset/(Liability) (in thousands of U.S. Dollars) Hedge	Non-hedge	Average Forward Rate (1)	Expected Maturity 2013 (in thousands of U.S. Dollars)
Norwegian Kroner	195,000	1	2,044	5.94	32,848
British Pound	1,500	—	115	0.65	2,322
Euro	1,800	—	(7)	0.76	2,382
		1	2,152		37,552

(1) Average forward rate represents the contracted amount of foreign currency one U.S. Dollar will buy.

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The Partnership enters into cross currency swaps and pursuant to these swaps the Partnership receives the principal amount in Norwegian Kroner (or NOK) on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in Norwegian Kroner based on NIBOR plus a margin for a payment of US Dollar fixed interest or US Dollar floating interest based on LIBOR plus a margin. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal at maturity of the Partnership's Norwegian Kroner Bonds due in 2013 and 2017. In addition, the cross currency swap due in 2017 economically hedges the interest rate exposure on the Norwegian Kroner Bonds due in 2017. The Partnership has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its Norwegian Kroner Bonds due in 2013 and 2017. As at December 31, 2012, the Partnership was committed to the following cross currency swaps:

Principal Amount NOK	Principal Amount USD	Floating Rate Receivable Reference Rate	Floating Rate Receivable Margin	Floating Rate Payable Reference Rate	Floating Rate Payable Margin	Fixed Rate Payable	Fair Value / Asset (Liability)	Remaining Term (years)
600,000	98,500	NIBOR	4.75%	LIBOR(1)	5.04%		9,890	0.9
600,000	101,400	NIBOR	5.75%			7.49%	3,545	4.1
							13,435	

(1) LIBOR subsequently fixed at 1.1%, subject to a LIBOR rate receivable cap of 3.5% (see next section).

Interest Rate Risk

The Partnership enters into interest rate swaps, which exchange a receipt of floating interest for a payment of fixed interest to reduce the Partnership's exposure to interest rate variability on its outstanding floating-rate debt. The Partnership has not designated, for accounting purposes, its interest rate swaps as cash flow hedges of its USD LIBOR denominated borrowings.

As at December 31, 2012, the Partnership was committed to the following interest rate swap agreements:

	Interest Rate Index	Notional Amount $	Fair Value / Carrying Amount of Assets (Liability) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) (1)
U.S. Dollar-denominated interest rate swaps (2)	LIBOR	900,000	(202,498)	11.5	4.7
U.S. Dollar-denominated interest rate swaps (3)	LIBOR	507,458	(67,451)	6.9	4.0
U.S. Dollar-denominated interest rate swaps (2)(4)	LIBOR	98,500	(782)	0.9	1.1
		1,505,958	(270,731)		

(1) Excludes the margin the Partnership pays on its variable-rate debt, which as at December 31, 2012, ranged from 0.30% and 3.25%.
(2) Notional amount remains constant over the term of the swap.
(3) Notional amount reduces quarterly or semi-annually.
(4) The LIBOR rate receivable is capped at 3.5%, which effectively results in a fixed rate of 1.12% unless LIBOR exceeds 3.5%, in which case the Partnership's related interest rate effectively floats at LIBOR, but reduced by 2.38%.

Tabular disclosure

The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Partnership's balance sheets.

	Accounts Receivable $	Current portion of derivative assets $	Derivative assets $	Accrued liabilities $	Current portion of derivative liabilities $	Derivative liabilities $
As at December 31, 2012						
Foreign currency contracts – cash flow hedges	—	1	—	—	—	—
Foreign currency contracts – not designated as hedges	—	2,159	—	—	(7)	—
Cross currency swap - not designated as hedges	284	10,238	2,913	—	—	—
Interest rate swaps – not designated as hedges	—	—	—	(9,259)	(47,741)	(213,731)
	284	12,398	2,913	(9,259)	(47,748)	(213,731)
As at December 31, 2011						
Foreign currency contracts – cash flow hedges	—	549	—	—	(448)	(145)
Foreign currency contracts – not designated as hedges	—	2,192	2	—	(2,532)	(696)

Cross currency swap - not designated as hedges	225	1,577	875	—	—	—
Interest rate swaps – not designated as hedges	—	—	—	(10,406)	(43,416)	(244,157)
	225	4,318	877	(10,406)	(46,396)	(244,998)

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For the periods indicated, the following table presents the effective portion of gains (losses) on foreign currency forward contracts designated and qualifying as cash flow hedges that were recognized in (1) other comprehensive income, (2) recorded in accumulated other comprehensive income (or *AOCI*) during the term of the hedging relationship and reclassified to earnings, and (3) the ineffective portion of gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

Year Ended December 31, 2012				Year Ended December 31, 2011			
Balance Sheet (AOCI)	Statement of Income (Loss)			Balance Sheet (AOCI)	Statement of (Loss) Income		
Effective Portion $	Effective Portion $	Ineffective Portion $		Effective Portion $	Effective Portion $	Ineffective Portion $	
713	—	—	Vessel operating expenses	319	833	(300)	Vessel operating expenses
	217	(440)	General and administrative expenses		1,512	(6)	General and administrative expenses
713	217	(440)		319	2,345	(306)	

Year Ended December 31, 2010			
Balance Sheet (AOCI)	Statement of Income (Loss)		
Effective Portion $	Effective Portion $	Ineffective Portion $	
(3,154)	34	(2,819)	Vessel operating expenses
	(3,277)	(1,417)	General and administrative expenses
(3,154)	(3,243)	(4,236)	

As at December 31, 2012, the Partnership's accumulated other comprehensive income consisted of unrealized gains on foreign currency forward contracts designated as cash flow hedges. As at December 31, 2012, the Partnership estimated, based on the current foreign exchange rates, that it would reclassify approximately ($0.1) million of net losses on foreign currency forward contracts from accumulated other comprehensive income to earnings during the next 12 months.

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Realized and unrealized (losses) gains of interest rate swaps and foreign currency forward contracts that are not designated for accounting purposes as cash flow hedges, are recognized in earnings and reported in realized and unrealized (losses) gains on non-designated derivatives in the consolidated statements of income (loss). The effect of the gains (losses) on these derivatives on the consolidated statements of income (loss) for the years ended 2012, 2011, and 2010 is as follows:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Realized (losses) gains relating to:			
Interest rate swaps	(58,596)	(58,475)	(49,224)
Foreign currency forward contracts	2,969	4,704	(1,029)
	(55,627)	(53,771)	(50,253)
Unrealized gains (losses) relating to:			
Interest rate swaps	26,100	(100,306)	(10,408)
Foreign currency forward contracts	3,178	(5,667)	4,995
	29,278	(105,973)	(5,413)
Total realized and unrealized (losses) gains on derivative instruments	(26,349)	(159,744)	(55,666)

Realized and unrealized gains (losses) of the cross currency swaps are recognized in earnings and reported in foreign currency exchange gain (loss) in the consolidated statements of income (loss). The effect of the gain (loss) on cross currency swaps on the consolidated statements of income (loss) is as follows:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Realized gains	2,992	2,881	198
Unrealized gains (losses)	10,700	(1,581)	4,031
Total realized and unrealized gains on cross currency swaps	13,692	1,300	4,229

The Partnership is exposed to credit loss in the event of non-performance by the counterparties, all of which are financial institutions, to the foreign currency forward contracts and the interest rate swap agreements. In order to minimize counterparty risk, the Partnership only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

14. Income Taxes

The significant components of the Partnership's deferred tax assets and liabilities are as follows:

	December 31, 2012 $	December 31, 2011 $
Deferred tax assets:		
Tax losses carried forward (1)	197,912	169,125
Provisions	2,045	1,353
Other	8,129	—
Unfavorable contract	—	35,491
Total deferred tax assets:	208,086	205,969
Deferred tax liabilities:		
Vessels and equipment	26,503	60,776
Long-term debt	33,764	24,918
Other	3,792	3,178
Total deferred tax liabilities	64,059	88,872
Net deferred tax assets	144,027	117,097
Valuation allowance	(135,079)	(116,706)
Net deferred tax assets (2)	8,948	391
Disclosed in:		
Deferred tax asset	8,948	391

(1) The net operating losses carried forward of $702.3 million are available to offset future taxable income in the applicable jurisdictions, and can be carried forward indefinitely.
(2) The change in the net deferred tax assets is related to the change in temporary differences and foreign exchange gains.

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The components of the provision for income taxes are as follows:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Current	1,669	(7,293)	(6,038)
Deferred	8,808	614	15,756
Income tax recovery (expense)	10,477	(6,679)	9,718

The Partnership operates in countries that have differing tax laws and rates. Consequently a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. Reconciliations of the tax charge related to the current year at the applicable statutory income tax rates and the actual tax charge related to the current year are as follows:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Net income (loss) before taxes	102,988	(66,389)	52,537
Net income (loss) not subject to taxes	85,588	(90,448)	(121,917)
Net income (loss) subject to taxes	17,400	24,059	174,454
At applicable statutory tax rates	(6,292)	6,812	43,139
Permanent differences	(12,245)	(11,444)	(44,706)
Adjustments related to currency differences	6,476	(14,044)	(9,514)
Temporary differences for which no deferred tax asset was recognized	23	705	1,363
Valuation allowance	1,600	24,673	—
Prior year current taxes accrued	(39)	(23)	—
Tax (recovery) expense related to current year	(10,477)	6,679	(9,718)

The following is a tabular reconciliation of the Partnership's total amount of unrecognized tax benefits at the beginning and end of 2012, 2011, and 2010:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Balance of unrecognized tax benefits as at January 1,	6,231	5,929	5,516
Decreases for positions related to prior years	(2,539)	(122)	—
Increases for positions related to the current year	—	424	413
Balance of unrecognized tax benefits as at December 31,	3,692	6,231	5,929

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The Partnership does not presently anticipate such uncertain tax positions will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected. The tax years 2008 through 2012 remain open to examination by some of the taxing jurisdictions in which the Partnership is subject to tax.

The interest and penalties on unrecognized tax benefits included in the tabular reconciliation above were not material.

15. Commitments and Contingencies

a) The Partnership may, from time to time, be involved in legal proceedings and claims that arise in the ordinary course of business. The Partnership believes that any adverse outcome, individually or in the aggregate, of any existing claims would not have a material effect on its financial position, results of operations or cash flows, when taking into account its insurance coverage and indemnifications from charterers or Teekay Corporation.

On November 13, 2006, the Partnership's shuttle tanker, the *Navion Hispania* , collided with the *Njord Bravo* , an FSO unit, while preparing to load an oil cargo from the *Njord Bravo* . The *Njord Bravo* services the Njord field, which is operated by Statoil Petroleum AS (or *Statoil*) and is located off the Norwegian coast. At the time of the incident, Statoil was chartering the *Navion Hispania* from the Partnership. The *Navion Hispania* and the *Njord Bravo* both incurred damage as a result of the collision. In November 2007, Navion Offshore Loading AS (or *NOL*), a subsidiary of the Partnership, and two subsidiaries of Teekay Corporation were named as co-defendants in a legal action filed by Norwegian Hull Club (the hull and machinery insurers of the *Njord Bravo*) and various licensees in the Njord field. The Plaintiffs sought damages for vessel repairs, expenses for a replacement vessel and other amounts related to production stoppage on the field, totaling NOK 213,000,000 (approximately $38.3 million). The Stavanger District Court found that NOL is liable for damages except for damages related to certain indirect or consequential losses. The court also found that Statoil ASA is liable to NOL for the same amount of damages to NOL. The parties have appealed the decision. As a result of the judgment, as at December 31, 2012 and 2011, the Partnership has recognized a liability of NOK 76,000,000 (approximately $13.7 million, which is a reduced amount in accordance with the court's decision to exclude a large part of the indirect or consequential losses) to the Plaintiffs and a corresponding receivable from Statoil recorded in other liabilities and other assets, respectively.

The Partnership believes the likelihood of any losses relating to the claim is remote. The Partnership believes that the charter contract relating to the *Navion Hispania* requires that Statoil be responsible and indemnify the Partnership for all losses relating to the damage to the *Njord Bravo* . The Partnership and Teekay Corporation also maintain protection and indemnity insurance for damages to the *Navion Hispania* and insurance for collision-related costs and claims. The Partnership believes that these insurance policies will cover the costs related to this incident, including any costs not indemnified by Statoil, subject to standard deductibles. In addition, Teekay Corporation has agreed to indemnify the Partnership for any losses it may incur in connection with this incident.

b) During 2010, an unrelated party contributed a shuttle tanker with a value of $35.0 million to a subsidiary of the Partnership for a 33% equity interest in the subsidiary. The equity issuance resulted in a dilution loss of $7.4 million. The non-controlling interest owner in the subsidiary holds a put option which, if exercised, would obligate the Partnership to purchase the non-controlling interest owner's 33% share in the entity for cash in accordance with a defined formula. The redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at December 31, 2012.

c) In June 2011, the Partnership entered into a new long-term contract with a subsidiary of BG Group plc (or *BG*) to provide shuttle tanker services in Brazil. The contract with BG will be serviced by four newbuilding shuttle tankers to be constructed by Samsung Heavy Industries in South Korea for a total cost of approximately $446 million (excluding capitalized interest and miscellaneous construction costs). As at December 31, 2012, payments made towards these commitments totaled $122.7 million and the remaining payments required to be made under these newbuilding contracts are $323.3 million (2013). Upon their scheduled delivery in mid-to-late 2013, the vessels will commence operations under 10-year, fixed-rate time-charter-out contracts. The contract with BG also includes certain extension options and vessel purchase options exercisable by the charterer.

d) On October 1, 2011, the Partnership acquired from Teekay Corporation a newbuilding shuttle tanker, the *Scott Spirit* , for $116.0 million. The purchase price is subject to adjustment for up to an additional $12 million based upon incremental shuttle tanker revenues above projections used for the sales price valuation generated during the two years following the acquisition. As a result, on October 1, 2012, the partnership paid an additional $5.9 million to Teekay Corporation (see notes 4 and 12i).

e) In November 2011, Teekay Corporation agreed to acquire from Sevan Marine ASA (or *Sevan*) the *Voyageur Spirit* (formerly known as the *Sevan Voyageur*) FPSO unit upon the completion of certain upgrades, which were completed in the fourth quarter of 2012, and commencement of the unit's charter contract, which is expected to be in April 2013. In September 2012, the Partnership agreed to acquire the *Voyageur Spirit* FPSO unit from Teekay Corporation at a purchase price of approximately $540 million, subject to financing. This acquisition is expected to take place upon commencement of the unit's charter contract. The *Voyageur Spirit* will operate on the Huntington Field in the North Sea under a five-year firm period contract with E.ON Ruhrgas UK E&P Limited, plus extension options. The Partnership expects to finance the acquisition through the assumption of a new $330 million debt facility secured by the asset, a portion of the proceeds from the Partnership's public offering completed in September 2012 and a $40 million equity private placement of common units to Teekay Corporation.

f) In November 2012, the Partnership agreed to acquire a 2010-built HiLoad Dynamic Positioning (or *DP*) unit from Remora AS (or *Remora*), a Norway-based offshore marine technology company, for a total purchase price of approximately $55 million, including modification costs. The HiLoad DP unit is a self-propelled dynamic positioning system that attaches to and keeps conventional tankers in position when

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loading from offshore installations. The transaction is subject to finalizing a ten-year time-charter contract with Petroleo Brasileiro SA (or *Petrobras*) in Brazil. The acquisition of the HiLoad DP unit is expected to be completed in the second quarter of 2013 and the unit is expected to commence operating at its full time-charter rate in early 2014 once modifications, delivery of the DP unit to Brazil, and operational testing have been completed. As part of the transaction, Teekay Corporation has also agreed to invest approximately $4.4 million to acquire a 49.9% ownership interest in a recapitalized Remora. In addition, the Partnership will enter into an omnibus agreement with Remora which will provide the Partnership with the right of first refusal to acquire future HiLoad projects developed by Remora.

16. Supplemental Cash Flow Information

a) The changes in non-cash working capital items related to operating activities for the years ended December 31, 2012, 2011, and 2010 are as follows:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Accounts receivable	(8,750)	(13,788)	13,189
Prepaid expenses and other assets	6,075	(6,139)	5,680
Accounts payable and accrued liabilities	35	(8,716)	23,526
Advances (to) from affiliate	(14,807)	17,347	(7,931)
	(17,447)	(11,296)	34,464

b) Cash interest paid (including interest paid by the Dropdown Predecessor and realized losses on interest rate swaps) during the years ended December 31, 2012, 2011, and 2010 totaled $102.1 million, $91.1 million, and $80.5 million, respectively.

c) Taxes paid (including taxes paid by the Dropdown Predecessor) during the years ended December 31, 2012, 2011, and 2010 totaled $5.7 million, $4.8 million and $1.1 million, respectively.

d) The Partnership's consolidated statement of cash flows for the years ended December 31, 2011 and 2010 reflect the Dropdown Predecessors as if the Partnership had acquired the Dropdown Predecessor when the vessels began operations under the ownership of Teekay Corporation. For non-cash changes related to the Dropdown Predecessors, see note 12.

e) The contribution from the non-controlling interest owner described in note 15b has been treated as a non-cash transaction in the Partnership's consolidated statement of cash flows.

f) The cash portion of the purchase price of vessels acquired from Teekay Corporation is as follows:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Peary Spirit *(note 12f)*	—	(37,729)	—
Scott Spirit *(note 12i)*	—	(22,954)	—
Falcon Spirit (net of cash acquired of $2.8 million) *(note 12b)*	—	—	(14,099)
Rio das Ostras (net of cash acquired of $17.7 million) *(note 12c)*	—	—	(58,721)
Amundsen Spirit *(note 12d)*	—	—	(17,671)
Nansen Spirit *(note 12e)*	—	—	(16,560)
	—	(60,683)	(107,051)

g) Contribution (distribution) of capital from (to) Teekay Corporation to (from) the Dropdown Predecessor is as follows:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Relating to *Scott Spirit (note 12i)*	—	2,305	—
Relating to *Falcon Spirit (note 12b)*	—	—	3,608
Relating to *Rio das Ostras (note 12c)*	—	—	(2,791)
Relating to *Amundsen Spirit (note 12d)*	—	—	3,496
	—	2,305	4,313

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17. Partners' Equity and Net Income (Loss) Per Unit

At December 31, 2012, of the Partnership's total limited partner units outstanding, 72.1% were held by the public. The remaining units, as well as the 2% general interest, were held by a subsidiary of Teekay Corporation.

Limited Partners' Rights

Significant rights of the limited partners include the following:

- Right to receive distribution of available cash within approximately 45 days after the end of each quarter.
- No limited partner shall have any management power over the Partnership's business and affairs; the general partner shall conduct, direct and manage our activities.
- The General Partner may be removed if such removal is approved by unitholders holding at least 66 2/3% of the outstanding units voting as a single class, including units held by the General Partner and its affiliates.

Incentive Distribution Rights

The General Partner is entitled to incentive distributions if the amount the Partnership distributes to unitholders with respect to any quarter exceeds specified target levels shown below:

Quarterly Distribution Target Amount (per unit)	Unitholders	General Partner
Minimum quarterly distribution of $0.35	98%	2%
Up to $0.4025	98%	2%
Above $0.4025 up to $0.4375	85%	15%
Above $0.4375 up to $0.525	75%	25%
Above $0.525	50%	50%

During the year ended December 31, 2012, cash distributions exceeded $0.4025 per unit and, consequently, the assumed distribution of net income resulted in the use of the increasing percentages to calculate the General Partner's interest in net income for the purposes of the net income per unit calculation.

In the event of a liquidation, all property and cash in excess of that required to discharge all liabilities will be distributed to the unitholders and the General Partner in proportion to their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of the Partnership's assets in liquidation in accordance with the partnership agreement.

Net Income (Loss) Per Unit

Net income (loss) per unit is determined by dividing net income (loss), after deducting the amount of net income (loss) attributable to the Dropdown Predecessor, the non-controlling interests and the General Partner's interest, by the weighted-average number of units outstanding during the applicable period.

The General Partner's and common unitholders' interests in net income (loss) are calculated as if all net income (loss) was distributed according to the terms of the Partnership's partnership agreement, regardless of whether those earnings would or could be distributed. The partnership agreement does not provide for the distribution of net income (loss); rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter less the amount of cash reserves established by the Partnership's board of directors to provide for the proper conduct of the Partnerships' business including reserves for maintenance and replacement capital expenditure and anticipated capital requirements. Unlike available cash, net income (loss) is affected by non-cash items such as depreciation and amortization, unrealized gains and losses on derivative instruments and unrealized foreign currency translation gains and losses.

The Partnership allocates the Limited Partners' interest in net income (loss), including both distributed and undistributed net income (loss), between continuing operations and discontinued operations based on the proportion of net income (loss) from continuing and discontinued operations to total net income (loss).

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Public and Private Offerings

The following table summarizes the issuances of common units over the three years ending December 31, 2012:

Date	Offering Type	Number of Common Units Issued	Offering Price	Gross Proceeds (1) (in millions of U.S. Dollars)	Net Proceeds (in millions of U.S. Dollars)	Teekay Corporation's Ownership After the Offering (2)	Use of Proceeds
March 2010	Public	5,060,000	$19.48	100.6	95.5	35.92%	Repayment of vendor financing and finance the acquisition of the Falcon Spirit FSO unit
August 2010	Public	6,037,500	$22.15	136.5	130.8	31.72%	Prepayment of revolving credit facilities
December 2010	Public	6,440,000	$27.84	182.9	175.2	28.26%	Prepayment of revolving credit facilities
March 2011	Private	7,562,814	$29.32	226.3	226.3	36.90%	Consideration for acquisition of remaining 49% in OPCO
July 2011	Private	713,266	$28.04	20.4	20.4	36.51%	Partially finance shipyard installments for four newbuilding shuttle tankers
November 2011	Private	7,112,974	$23.90	173.5	173.2	33.03%	Finance the purchase of the Piranema Spirit FPSO unit
July 2012	Private	1,700,022	$26.47	45.9	45.8	32.30%	Partially finance shipyard installments for four newbuilding shuttle tankers
September 2012	Public	7,778,832	$27.65	219.5	211.4	29.36%	Prepayment of revolving credit facilities

(1) Including General Partner's 2% proportionate capital contribution
(2) Including Teekay Corporation's indirect 2% general partner interest

18. Acquisition of Piranema Spirit

On November 30, 2011, the Partnership acquired a 100% of the shares of Piranema Production AS from Sevan Marine ASA for a total purchase price of $164.3 million. The purchase price was paid in cash and was financed through the concurrent issuance of 7.1 million common units. Piranema Production AS owns the 2007-built *Piranema Spirit* FPSO unit, which is operating under a long-term charter, with cost escalation clauses, to Petrobras on the Piranema field located offshore Brazil. The firm period of the charter expires in March 2018, however Petrobras has up to 11 one-year extension options.

The acquisition of the *Piranema Spirit* FPSO unit was accounted for using the purchase method of accounting, based upon estimates of fair value. The purchase price allocation adjustments were finalized in late 2012 and there were no changes to the preliminary fair values of the assets acquired and liabilities assumed by the Partnership. Operating results of the *Piranema Spirit* FPSO unit are reflected in these financial statements commencing November 30, 2011, the effective date of acquisition. During December 2011, the Partnership recognized $4.8 million of revenue and $1.5 million of net income resulting from its acquisition of the *Piranema Spirit* .

The following table summarizes the fair values of the assets acquired and liabilities assumed by the Partnership.

(in thousands of U.S. dollars)	As at November 30, 2011 $
ASSETS	
Cash and cash equivalents	2,439
Other current assets	5,308
Vessels and equipment	292,242
Other assets - long-term	659
Total assets acquired	300,648
LIABILITIES	
Current liabilities	8,458
In-process revenue contracts	127,900
Total liabilities assumed	136,358
Net assets acquired	164,290

Cash consideration	164,290
Net cash consideration	161,851

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
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The following table shows comparative summarized consolidated pro forma financial information for the Partnership for the years ended December 31, 2011 and 2010, giving effect to the acquisition of a 100% interest in the *Piranema Spirit* FPSO unit as if it had taken place on January 1, 2010:

(in thousands of U.S. dollars, except per unit data)	Pro Forma Year ended December 31, 2011 (unaudited) $	Pro Forma Year ended December 31, 2010 (unaudited) $
Revenues	1,000,209	955,083
Net (loss) income	(98,030)	76,449
Limited partners' interest in net (loss) income per common unit- basic	(1.60)	0.99
Limited partners' interest in net (loss) income per common unit- diluted	(1.60)	0.99

19. Loss on Sale and Write down of Vessels

In 2012, four of the Partnership's conventional crude oil tankers were written down to their estimated fair value. In the second and fourth quarters of 2012, the *Hamane Spirit* and *Torben Spirit* , respectively, which were written down in 2011 and classified as held-for-sale as at December 31, 2011, were further written down to their estimated fair value upon sale. The Partnership also received a fee from Teekay Corporation of $14.7 million relating to the early termination of the time-charter contract associated with the *Hamane Spirit* , which is recorded in net income (loss) from discontinued operations. In the fourth quarter of 2012, the *Luzon Spirit* , which was written down in 2011, was further written down to its estimated fair value upon sale. In the fourth quarter of 2012, the *Leyte Spirit* , which was written down in 2011, was further written down to its estimated fair value and classified as held-for-sale as of December 31, 2012. In 2012, five of the Partnership's shuttle tankers were written down to their estimated fair value. In the third quarter of 2012, a 1993-built shuttle tanker was written down to its estimated fair value due to a change in the operating plan for the vessel. In the third and fourth quarters of 2012, two shuttle tankers, which were written down in 2011, were further written down to their estimated fair value upon sale in 2012. In the fourth quarter of 2012, the 1992-built shuttle tanker, the *Basker Spirit* , which was written down in 2010, was further written down to its estimated fair value and classified as held-for-sale at December 31, 2012. In the fourth quarter of 2012, a 1992-built shuttle tanker was written down to its estimated fair value using discounted cash flows. The write-down was caused by the combination of the age of the vessel, the requirements of trading in the North Sea and Brazil and the weak tanker market. The estimated fair value for each of the other eight vessels written down in 2012 was determined using an appraised value.

In 2011, five of the Partnership's conventional crude oil tankers were written down to their estimated fair value. In August 2011, the charter contract of the *Scotia Spirit* was terminated and the vessel was sold. Prior to the sale, the vessel was classified as held-for-sale. In the third quarter of 2011, the Partnership wrote-down two conventional tankers, the *Luzon Spirit* and *Leyte Spirit* , due to the expiration of their time-charter contracts in December 2011 and the expectation that the vessels would be temporarily laid-up during 2012. In the fourth quarter of 2011, the Partnership decided to sell the *Hamane Spirit* and the *Torben Spirit* and to terminate their existing charter contracts concurrently with the sale. These vessels were classified as held-for-sale at December 31, 2011 and ultimately sold in 2012. The impairments for the five conventional crude oil tankers were the result of a weak tanker market, which has largely been caused by an over-supply of vessels relative to demand and a general decline in the future outlook for conventional tanker shipping. In 2011, three of the Partnership's older shuttle tankers were written down to their estimated fair value. The write-down was caused by the combination of the age of the vessels, the requirements of trading in the North Sea and Brazil and the weak tanker market. In 2011, two of the Partnership's FSO units, were written down to their estimated fair value. The *Karratha Spirit* was sold and the *Navion Saga* was written down due to escalating dry-dock costs and increased operating costs. The estimated fair value of the *Navion Saga* was determined using discounted cash flows. The estimated fair value for each of the other nine vessels written down in 2011 was determined using an appraised value.

In 2010, a 1992-built shuttle tanker, the *Basker Spirit,* was written down to its estimated fair value, using an appraised value, in conjunction with the termination of the charter contract for this vessel that was effective in early-2011.

See Note 5 – Segment Reporting for the total write down of vessels and total loss on sale of vessels by segment for 2012, 2011 and 2010.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
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The operations of the *Scotia Spirit* , *Hamane Spirit* , *Torben Spirit* , *Luzon Spirit* and *Leyte Spirit* prior to December 31, 2012 were reported within the conventional tanker segment. The following table summarizes the net income (loss) from discontinued operations for the periods presented in the consolidated statements of income (loss):

	Year Ended December 31, 2012 $	Year Ended December 31, 2011 $	Year Ended December 31, 2010 $
REVENUES	38,057	75,560	59,883
OPERATING EXPENSES			
Voyage expenses	10,573	19,075	11,593
Vessel operating expenses	6,556	12,212	13,315
Depreciation and amortization	1,248	11,227	15,480
General and administrative	1,954	2,023	2,022
Write down of vessels	1,693	54,069	—
Loss on sale of vessels	5,982	—	—
Total operating expenses	28,006	98,606	42,410
Income from vessel operations	10,051	(23,046)	17,473
OTHER ITEMS			
Interest expense	(531)	(681)	(835)
Foreign currency exchange loss	—	—	(30)
Other income - net	30	(76)	—
Total other items	(501)	(757)	(865)
Net income (loss) from discontinued operations	9,550	(23,803)	16,608

20. Change in Accounting Estimate

Effective January 1, 2012, the Partnership reduced the estimated useful life of six of its older shuttle tankers from 25 years to 20 years. As a result of the change in useful life, the Partnership increased its estimate of the residual value of these vessels to reflect the more recent average scrap prices. As a result, depreciation and amortization expense has increased by $14.9 million and net income attributable to partners has decreased by $10.8 million, or $0.15 per unit, for the year ended December 31, 2012.

21. Subsequent Events

a) In January 2013, the Partnership sold a 1992-built conventional tanker for net proceeds of $6.3 million. As at December 31, 2012, this vessel was classified as held-for-sale and its carrying value was written down to its estimated fair value. The Partnership’s consolidated statement of income (loss) for the year ended December 31, 2012 includes a $1.7 million write-down related to this vessel.

b) In January 2013, the Partnership sold a 1992-built shuttle tanker for net proceeds of $7.0 million. As at December 31, 2012, this vessel was classified as held-for-sale and its carrying value was written down to its estimated fair value. The Partnership’s consolidated statement of income (loss) for the year ended December 31, 2012 includes a $1.2 million write-down related to this vessel.

c) In January 2013, the Partnership issued in the Norwegian bond market NOK 1,300 million in senior unsecured bonds. The bonds were issued in two tranches maturing in January 2016 (NOK 500 million) and January 2018 (NOK 800 million). The aggregate principal amount of the bonds is equivalent to approximately $233 million and all interest and principal payments were swapped into U.S. dollars at a fixed rate of 4.80% on the tranche maturing in 2016 and 5.93% on the tranche maturing in 2018. In connection with this transaction, the Partnership repurchased NOK 388.5 million of the existing NOK 600 million Partnership bond issue maturing in November 2013. The Partnership used the remaining net proceeds of approximately $167 million to reduce portion of amounts outstanding under the Partnership’s revolving credit facilities and for general partnership purposes. The Partnership will apply to list the bonds on the Oslo Stock Exchange.

d) In February 2013, the Partnership made a partial prepayment of $150.0 million to Teekay Corporation in connection with the acquisition of the *Voyageur Spirit* FPSO unit. Teekay Corporation will pay the Partnership interest at a rate of LIBOR plus a margin of 4.25% on the prepaid funds. Teekay Corporation is obligated to repay the Partnership the full amount of prepaid funds, plus accrued interest, if the acquisition does not close before April 30, 2013.

Exhibit 2.3

ISIN NO 001 0670110

BOND AGREEMENT

between

Teekay Offshore Partners L.P.

(Issuer)

and

Norsk Tillitsmann ASA

(Bond Trustee)

on behalf of

the Bondholders

in the bond issue

FRN Teekay Offshore Partners L.P.
Senior Unsecured Bond Issue 2013/2016

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This bond agreement has been entered into on 21 January 2013 between

(1) Teekay Offshore Partners L.P. (a limited partnership organized in the Marshall Islands with Company No. 950010), as issuer (the " **Issuer** "), and

(2) Norsk Tillitsmann ASA (a company incorporated in Norway with Company No. 963 342 624), as bond trustee (the " **Bond Trustee** ").

1 Interpretation

1.1 Definitions

In this Bond Agreement the following terms shall have the following meanings (certain terms relevant for Clauses 1.2 and 18.2 and other Clauses may be defined in the relevant Clause):

" **Account Manager** " means a Bondholder's account manager in the Securities Register.

" **Attachment** " means any attachments to this Bond Agreement.

" **Bond Agreement** " means this bond agreement, including any Attachments to which it refers, and any subsequent amendments and additions agreed between the Parties.

" **Bond Issue** " means the bond issue constituted by the Bonds.

" **Bond Reference Rate** " means 3 months NIBOR.

" **Bondholder** " means a holder of Bond(s), as registered in the Securities Register, from time to time.

" **Bondholders' Meeting** " means a meeting of Bondholders, as set forth in Clause 16.

" **Bonds** " means the securities issued by the Issuer pursuant to this Bond Agreement, representing the Bondholders' underlying claim on the Issuer.

" **Business Day** " means any day on which commercial banks are open for general business, and can settle foreign currency transactions in Oslo.

" **Business Day Convention** " means that if the relevant Interest Payment Date falls on a day that is not a Business Day, that date will be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day (*Modified Following Business Day Convention*).

" **Change of Control Event** " means:

(1) an event where the Issuer ceases to hold, directly or indirectly, 100 % of the ownership and voting rights of Teekay Offshore Operating L.P. (a limited partnership organized in Marshall Islands with Company No. 950011);

or

(2) an event where Teekay Corporation (a company incorporated in the Marshall Islands with Company No. 3521) ceases to hold, directly or indirectly, a minimum of 51% of the ownership and voting rights of the GP, which conducts, directs and manages all activities of the Issuer.

" **Costs** " means all costs, expenses, disbursements, payments, charges, losses, demands, claims, liabilities, penalties, fines, damages, judgments, orders, sanctions, fees (including travel expenses, VAT, court fees and legal fees) and any other outgoings of whatever nature.

" **Default** " means an Event of Default or any event or circumstance specified in Clause 15.1 (Events of Default) which would (with the giving of notice, lapse of time, determination of materiality or the fulfillment of any other applicable condition or any combination of the foregoing) be an Event of Default under any Finance Document.

" **Encumbrance** " means any encumbrance, mortgage, pledge, lien, charge (whether fixed or floating), assignment by way of security, finance lease, sale and repurchase or sale and leaseback arrangement, sale of receivables on a recourse basis or security interest or any other agreement or arrangement having the effect of conferring security.

" **Event of Default** " means the occurrence of an event or circumstance specified in Clause 15.1.

" **Exchange** " means securities exchange or other reputable marketplace for securities, on which the Bonds are listed, or where the Issuer has applied for listing of the Bonds.

" **Finance Documents** " means (i) this Bond Agreement, (ii) the agreement between the Bond Trustee and the Issuer referred to in Clause 14.2, and (iii) any other document (whether creating a security interest or not) which is executed at any time by the Issuer in relation to any amount payable under this Bond Agreement.

" **Financial Indebtedness** " means any indebtedness incurred in respect of:

(a) moneys borrowed, including acceptance credit;

(b) any bond, note, debenture, loan stock or other similar instrument;

(c) the amount of any liability in respect of any lease, hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;

(d) receivables sold or discounted (other than any receivables sold on a non-recourse basis);

(e) any sale and lease-back transaction, or similar transaction which is treated as indebtedness under GAAP;

(f) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price, including without limitation currency or interest rate swaps, caps or collar transactions (and, when calculating the value of the transaction, only the mark-to-market value of the applicable derivative shall be taken into account);

(h) any amounts raised under any other transactions having the commercial effect of a borrowing or raising of money, whether recorded in the balance sheet or not (including any forward sale of purchase agreement);

(i) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institutions; and

(j) (without double counting) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any of the items referred to in (a) through (i) above.

" **Financial Statements** " means the audited unconsolidated and consolidated annual accounts and financial statements of the Issuer for any financial year, drawn up according to GAAP, such accounts to include a profit and loss account, balance sheet and cash flow statement.

" **Free Liquidity** " means, at any time, cash, cash equivalents and marketable securities (with investment grade rating from S&P and/or Moody's Investors Service) of maturities less than one (1) year, to which the Group shall have free, immediate and direct access each as reflected in the Issuer's most recent quarterly, consolidated financial statements. For the avoidance of doubt, Free Liquidity shall not be subject to any Encumbrance.

" **GAAP** " means the generally accepted accounting principles in the United States of America, in force from time to time.

" **GP** " means Teekay Offshore GP L.L.C., a Marshall Islands limited liability company with Company No. 960881, which is the general partner of the Issuer, which is a limited partnership formed under the Marshall Islands Limited Partnership Act and governed by a limited partnership agreement. Under such Act and partnership agreement, the GP manages the operations and activities of the Issuer.

" **Group** " means the Issuer and its Subsidiaries, and a **"Group Company"** means the Issuer or any of its Subsidiaries.

" **Interest Payment Date** " means 25 January, 25 April, 25 July and 25 October each year and the Maturity Date. Any adjustment will be made according to the Business Day Convention.

“ **ISIN** ” means International Securities Identification Numbering system – the identification number of the Bonds.

“ **Issue Date** ” means 25 January 2013.

“ **Issuer’s Bonds** ” means Bonds owned by the Issuer, any party or parties who has decisive influence over the Issuer, or any party or parties over whom the Issuer has decisive influence.

“ **Manager** ” means the manager for the Bond Issue.

“Margin ” means 4.00 percentage points per annum.

“ **Material Adverse Effect** ” means a material adverse effect on: (a) the business, financial condition or operations of the Issuer and/or the Group taken as a whole, (b) the Issuer’s ability to perform and comply with its obligations under the Bond Agreement; or (c) the validity or enforceability of the Bond Agreement.

“ **Material Subsidiary** ” means:

(i) any Subsidiary whose total consolidated assets represent at least 10 % of the total consolidated assets of the Group, or

(ii) any Subsidiary whose total consolidated revenues represent at least 10 % of the total consolidated net sales of the Group.

“ **Maturity Date** ” means 25 January 2016 or an earlier maturity date as provided for in this Bond Agreement. Any further adjustment may be made according to the Business Day Convention.

“ **NIBOR** ” means that the rate for an interest period will be the rate for deposits in Norwegian Kroner for a period as defined under Bond Reference Rate which appears on the Reuters Screen NIBR Page as of 12.00 noon, Oslo time, on the day that is two Business Days preceding that Interest Payment Date. If such rate does not appear on the Reuters Screen NIBR Page, the rate for that Interest Payment Date will be determined as if the Bond Reference Rate is 3 months NIBOR Reference Rate as the applicable floating rate option.

“ **NIBOR Reference Rate”** means that the rate for an interest period will be determined on the basis of the rates at which deposits in Norwegian Kroner are offered by four large authorised exchange banks in the Oslo market (the “ **Reference Banks** ”) at approximately 12.00 noon, Oslo time, on the day that is two Business Days preceding that Interest Payment Date to prime banks in the Oslo interbank market for a period as defined under Bond Reference Rate commencing on that Interest Payment Date and in a representative amount. The Bond Trustee will request the principal Oslo office of each Reference Bank to provide a quotation of its rate. If at least two such quotations are provided, the rate for that Interest Payment Date shall be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that Interest Payment Date will be the arithmetic mean of the rates quoted by major banks in Oslo, selected by the Bond Trustee, at approximately 12.00 noon, Oslo time, on that Interest Payment Date for loans in

Norwegian kroner to leading European banks for a period as defined under Bond Reference Rate commencing on that Interest Payment Date and in a representative amount.

" **NOK** " means Norwegian kroner, being the lawful currency of Norway.

" **Outstanding Bonds** " means the aggregate principal amount of the total number of Bonds not redeemed or otherwise discharged.

" **QIB** " means a "qualified institutional buyer" as defined in Rule 144A under the US Securities Act.

" **Party** " means a party to this Bond Agreement (including its successors and permitted transferees).

" **Paying Agent** " means any legal entity as appointed by the Issuer and approved by the Bond Trustee who acts as paying agent on behalf of the Issuer with respect to the Bonds.

" **Payment Date** " means a date for payment of principal or interest.

" **Quarter Date** " means each 31 March, 30 June, 30 September and 31 December.

" **Quarterly Financial Reports** " means the unaudited unconsolidated and consolidated financial statements of the Issuer as of each Quarter Date, prepared in accordance with GAAP, such accounts to include a profit and loss account, balance sheet and cash flow statement.

" **Securities Register** " means the securities register in which the Bond Issue is registered.

" **Securities Register Act** " means the Norwegian Act relating to Registration of Financial Instruments of 5 July 2002 No. 64.

" **Subsidiary"** means an entity over which another entity or person has a determining influence due to (i) direct and indirect ownership of shares or other ownership interests, (ii) control of the general partner of any such other entity that is a limited partnership and/or (iii) agreement, understanding or other arrangement. An entity shall always be considered to be the subsidiary of another entity or person if such entity or person has such number of shares or ownership interests so as to represent the majority of the votes in the entity, or has the right to elect or dismiss a majority of the directors in the entity.

" **Taxes** " means all present and future taxes, levies, imposts, duties, charges, fees, deductions and withholdings, and any restrictions and or conditions resulting in a charge together with interest thereon and penalties in respect thereof and " **Tax** " and " **Taxation** " shall be construed accordingly.

" **Total Debt** " means, at any time, on a consolidated basis of the Group, the aggregate of:

(i) the amount calculated in accordance with GAAP shown as each of "long term debt", "short term debt" and "current portion of long term debt" on the latest consolidated balance sheet of the Issuer; and

(ii) the amount of any liability in respect of any lease or hire purchase contract entered into by the Issuer or any of its Subsidiaries which would, in accordance with GAAP, be treated as a finance or capital lease (excluding any amounts applicable to leases to the extent that the lease obligations are secured by a security deposit which is held on the balance sheet under "restricted cash").

" **US Person** " has the meaning ascribed to such term in Regulation S under the US Securities Act.

" **US Securities Act** " means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

" **USD** " means US Dollars, being the legal currency of the United States of America.

" **Voting Bonds** " means the Outstanding Bonds less the Issuer's Bonds.

1.2 *Construction*

In this Bond Agreement, unless the context otherwise requires:

(a) headings are for ease of reference only;

(b) words denoting the singular number shall include the plural and vice versa;

(c) references to Clauses are references to the Clauses of this Bond Agreement;

(d) references to a time is a reference to Oslo time unless otherwise stated herein;

(e) references to a provision of law is a reference to that provision as it may be amended or re-enacted, and to any regulations made by the appropriate authority pursuant to such law, including any determinations, rulings, judgments and other binding decisions relating to such provision or regulation;

(f) references to " **control** " means the power to appoint a majority of the board of directors of the entity or to direct the management and policies of an entity, whether through the ownership of voting capital, by contract or otherwise; and

(h) references to a " **person** " shall include any individual, firm, partnership, joint venture, company, corporation, trust, fund, body corporate, unincorporated body of persons, or any state or any agency of a state or association (whether or not having separate legal personality).

2 The Bonds

2.1 Binding nature of the Bond Agreement

2.1.1 The Bondholders are, through their subscription, purchase or other transfer of Bonds bound by the terms of the Bond Agreement and other Finance Documents, and grant authority to the Bond Trustee to finalize and execute the Bond Agreement on the Bondholders behalf as set out in the subscription documents, term sheet, sales documents or in any other way, and all Bond transfers are subject to the terms of this Bond Agreement and all Bond transferees are, in taking transfer of Bonds, deemed to have accepted the terms of the Bond Agreement and the other Finance Documents and will automatically become parties to the Bond Agreement upon the completed transfer having been registered, without any further action required to be taken or formalities to be complied with, see also Clause 18.1.

2.1.2 The Bond Agreement is available to anyone and may be obtained from the Bond Trustee or the Issuer. The Issuer shall ensure that the Bond Agreement is available to the general public throughout the entire term of the Bonds.

2.2 The Bonds

2.2.1 The Issuer has resolved to issue a series of Bonds in the maximum amount of NOK 500,000,000 (Norwegian kroner five hundred million).

The Bonds will be in denominations of NOK 1,000,000 each and rank pari passu between themselves.

The Bond Issue will be described as "FRN Teekay Offshore Partners L.P.
Senior Unsecured Bond Issue 2013/2016".

The International Securities Identification Number (ISIN) of the Bond Issue will be NO 001 0670110.

The tenor of the Bonds is from and including the Issue Date to the Maturity Date.

2.3 Purpose and utilization

2.3.1 The net proceeds of the Bonds shall be employed for general partnership purposes.

3 Listing

3.1 The Issuer shall apply for listing of the Bonds on Oslo Børs.

3.2 If the Bonds are listed, the Issuer shall ensure that the Bonds remain listed until they have been discharged in full.

4 Registration in a Securities Register

4.1 The Bond Issue and the Bonds shall prior to disbursement be registered in the Securities Register according to the Securities Register Act and the conditions of the Securities Register.

4.2 The Issuer shall promptly arrange for notification to the Securities Register of any changes in the terms and conditions of this Bond Agreement. The Bond Trustee shall receive a copy of the notification.

4.3 The Issuer is responsible for the implementation of correct registration in the Securities Register. The registration may be executed by an agent for the Issuer provided that the agent is qualified according to relevant regulations.

4.4 The Bonds have not been registered under the US Securities Act, and the Issuer is under no obligation to arrange for registration of the Bonds under the US Securities Act.

5 Purchase and transfer of Bonds

5.1 Subject to the restrictions set forth in this Clause 5, the Bonds are freely transferable and may be pledged.

5.2 Bondholders may be subject to purchase or transfer restrictions with regard to the Bonds, as applicable from time to time under local laws to which a Bondholder may be subject (due e.g. to its nationality, its residency, its registered address, its place(s) for doing business). Each bondholder must ensure compliance with local laws and regulations applicable at own cost and expense. Without limiting the generality of the foregoing:

Bondholders that are US Persons or located in the United States will not be permitted to transfer the Bonds except (a) subject to an effective registration statement under the US Securities Act, (b) to a person that the Bondholder reasonably believes is a QIB within the meaning of Rule 144A under the US Securities Act that is purchasing for its own account, or the account of another QIB, to whom notice is given that the resale, pledge or other transfer may be made in reliance on Rule 144A, (c) outside the United States in accordance with Regulation S under the US Securities Act in a transaction on the Oslo Børs, and (d) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 thereunder (if available). The Bonds may not be purchased by, or for the benefit of, persons resident in Canada.

5.3 Notwithstanding the above, a Bondholder which has purchased the Bonds in contradiction to mandatory restrictions applicable may nevertheless utilize its voting rights under this Bond Agreement.

6 Conditions Precedent

6.1 Disbursement of the net proceeds of the Bonds to the Issuer will be subject to the Bond Trustee having received the following documents, in form and substance satisfactory to it, at least two Business Days prior to the Issue Date:

(a) this Bond Agreement duly executed by all parties thereto;

(b) certified copies of all necessary corporate resolutions of the Issuer to issue the Bonds and execute the Finance Documents to which it is a party;

(c) a power of attorney from the Issuer to relevant individuals for its execution of the relevant Finance Documents, or extracts from the relevant register or similar documentation evidencing the individuals authorized to sign on behalf of the Issuer;

(d) certified copies of the Certificate of Formation for the Issuer, and the partnership agreement for the Issuer;

(e) the latest Financial Statements for the Issuer, and the Issuer's latest Quarterly Financial Report;

(f) confirmation that the requirements set forth in Chapter 7 of the Norwegian Securities Trading Act (implementing the EU prospectus directive (2003/71 EC) concerning prospectuses have been fulfilled or do not apply to the Bond Issue;

(g) to the extent necessary, any public authorisations required for the Bond Issue;

(h) confirmation from the Paying Agent that the Bonds have been registered in the Securities Register;

(i) written confirmation in accordance with Clause 7.3 (if required);

(j) the agreement set forth in Clause 14.2, duly executed;

(k) documentation on the granting of authority to the Bond Trustee as set out in Clause 2.1 and copies of any written documentation made public by the Issuer or the Manager in connection with the Bond Issue; and

(l) legal opinions in a form and content acceptable to the Bond Trustee from local counsel acceptable to the Bond Trustee, confirming inter alia (i) that the Issuer is legally organised and validly existing under its jurisdiction of organisation, (ii) the valid execution by the Issuer of the Finance Documents and the enforceability of the Finance Documents, (iii) that the Issuer has full partnership power and capacity to enter into and perform the duties under the Finance Documents, and (iv) that there are no other consents, approvals, authorisations or orders required by the Issuer from any governmental or other regulatory agencies in the jurisdictions of organisation of the Issuer in connection with the issue and offering of the Bonds and the performance by Issuer of its obligations under the Finance Documents.

6.2 The Bond Trustee may, in its reasonable opinion, waive the deadline or requirements for documentation as set forth in Clause 6.1.

6.3 Disbursement of the net proceeds from the Bonds is subject to the Bond Trustee's written notice to the Issuer, the Manager and the Paying Agent that the documents have been received and that the required conditions precedent are fulfilled or have been waived.

6.4 On the Issue Date, subject to receipt of confirmation from the Bond Trustee pursuant to Clause 6.3, the Manager shall make the net proceeds from the Bond Issue available to the Issuer.

7 Representations and Warranties

7.1 The Issuer represents and warrants to the Bond Trustee (on behalf of the Bondholders) that:

(a) Status

It is a limited partnership, duly organized and validly existing under the law of the jurisdiction in which it is incorporated, and has the power to own its assets and carry on its business as it is being conducted.

(b) Power and authority

It has the power to enter into and perform, and has taken all necessary partnership action to authorise its entry into, performance and delivery of this Bond Agreement and any other Finance Document to which it is a party and the transactions contemplated by those Finance Documents.

(c) Valid, binding and enforceable obligations

This Bond Agreement and any other Finance Document to which it is a party constitute (or will constitute, when executed by the respective parties thereto) legal, valid and binding obligations of the Issuer, enforceable in accordance with their terms, and (save as provided for therein) no further registration, filing, payment of Tax or fees or other formalities are necessary to render the said documents enforceable against the Issuer.

(d) Non-conflict with other obligations

The entry into and performance by the Issuer of the Bond Agreement and any other Finance Document to which it is a party and the transactions contemplated thereby do not and will not conflict with (i) any present law or regulation or present judicial or official order; (ii) its Certificate of Formation or partnership agreement; or (iii) any document or agreement which is binding on the Issuer or any of its assets.

(e) No Event of Default

No Default exists, and no other circumstances exist which constitute or (with the giving of notice, lapse of time, determination of materiality or the fulfillment of any other applicable condition, or any combination of the foregoing) would constitute a default under any document which is binding on the Issuer or any of its assets, and which would reasonably be expected to have a Material Adverse Effect.

(f) Authorizations and consents

All authorisations, consents, licenses or approvals of any governmental authorities required for the Issuer in connection with the execution, performance, validity or enforceability of this Bond Agreement or any other Finance Document, and the transactions contemplated thereby, have been obtained and are valid and in full force and effect. All material authorisations, consents, licenses or approvals of any governmental authorities required for the Issuer to carry on its business as presently conducted and as contemplated by this Bond Agreement, have been obtained and are in full force and effect.

(g) Litigation

No litigation, arbitration or administrative proceeding of or before any court, arbitral body or agency is pending or, to the best of the Issuer's knowledge, threatened which, if adversely determined, would reasonably be expected to have a Material Adverse Effect.

(h) Financial Statements

The most recently audited Financial Statements and the most recent unaudited Quarterly Financial Reports for the Issuer fairly and accurately represent in all material respects the assets and liabilities and financial condition as at their respective dates, and have been prepared in accordance with GAAP, consistently applied from one year to another.

(i) No undisclosed liabilities

As of the date of the most recent balance sheet included in the Financial Statements and Quarterly Financial Report, the Issuer had no material liabilities, direct or indirect, actual or contingent, that are required by GAAP to be included in such balance sheet and that are not disclosed by or reserved against in the Financial Statements or in the notes thereto.

(j) No Material Adverse Effect

Since the date of the most recent Financial Statements and Quarterly Financial Report, there has been no change in the business, assets or financial condition of the Issuer that would reasonably be expected to have a Material Adverse Effect.

(k) No misleading information

All documents and information which have been provided by the Issuer or with the agreement of the Issuer to the subscribers or the Bond Trustee in connection with this Bond Issue represent the latest publicly available financial information concerning the Group, and there has been no change in the Group's financial position since the date of the latest Quarterly Financial Report of the Issuer which could reasonably be expected to have a Material Adverse Effect.

(l) Environmental compliance

The Issuer and each Group Company is in compliance with any relevant applicable environmental law or regulation and no circumstances have occurred which would prevent such compliance in a manner which, in each case, has had or would reasonably be expected to have a Material Adverse Effect.

(m) Intellectual property

The Group has valid and good title to (a) its material patents, trade marks, service marks, designs, business names, copyrights, design rights, inventions, confidential information and other intellectual property rights and interests (whether registered or unregistered), and (b) the benefit of all applications and rights to use such assets.

(n) No withholdings

The Issuer is not required to make any deduction or withholding for or on account of any Taxes levied by the United States, Canada or the Republic of the Marshall Islands, or any political subdivision thereof or Taxing or other authority therein, or any political subdivision or Taxing or other authority in any jurisdiction from or through which the Issuer effects any payments hereunder, from any payment which it may become obliged to make to the Bond Trustee (on behalf of the Bondholders) or the Bondholders under this Bond Agreement; provided, however, that, notwithstanding any provision in this Agreement to the contrary, the Issuer shall not be liable under this Agreement or have any obligation to indemnify any Bondholder for or with respect to any Taxes that are imposed due to any of the following:

(i) the Bondholder has some connection with the Taxing jurisdiction other than merely holding the Bonds or receiving principal or interest payments on the Bonds (such as citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the Taxing jurisdiction); and

(ii) any Tax imposed on, or measured by net income.

(o) Pari passu ranking

The Issuer's payment obligations under this Bond Agreement or any other Finance Document to which it is a party rank at least pari passu with the claims of its other unsecured and unsubordinated creditors, except for claims which are preferred by bankruptcy, insolvency, liquidation or other similar laws of general application and for other obligations that are mandatorily preferred by law applying to companies generally.

7.2 The representations and warranties set out in Clause 7.1 shall apply for the Issuer and are made on the execution date of this Bond Agreement, and shall be deemed to be repeated on the Issue Date.

7.3 The Bond Trustee may prior to disbursement require a written statement from the Issuer confirming compliance with Clause 7.1.

7.4 In the event of misrepresentation, the Issuer shall indemnify the Bond Trustee for any economic losses suffered, both prior to the disbursement of the Bonds, and during the term of the Bonds, as a result of its reliance on the representations and warranties provided by the Issuer herein.

8 Status of the Bonds and security

8.1 The Bonds shall be senior unsecured debt of the Issuer. The Bonds shall rank at least *pari passu* with all other senior unsecured obligations of the Issuer (save for such claims which are preferred by bankruptcy, insolvency, liquidation or other similar laws of general application and for other obligations that are mandatorily preferred by law) and shall rank ahead of subordinated debt.

8.2 The Bonds are unsecured.

9 Interest

9.1 The Issuer shall pay interest on the aggregate outstanding principal amount of the Bonds from, and including, the Issue Date at the Bond Reference Rate plus the Margin (together the " **Floating Rate** ").

9.2 Interest payments shall be made in arrears on the Interest Payment Dates each year; the first Interest Payment Date falls in April 2013.

9.3 The relevant interest payable amount shall be calculated based on a period from, and including, one Interest Payment Date to, but excluding, the next following applicable Interest Payment Date.

9.4 The day count fraction in respect of the calculation of the payable interest amount shall be "Actual/360", which refers to the actual number of days in the calculation period for which interest is payable divided by 360.

9.5 The applicable Floating Rate on the Bonds is set/reset on each Interest Payment Date by the Bond Trustee commencing on the Interest Payment Date at the beginning of the relevant calculation period.

When the interest rate is set for the first time and on subsequent interest rate resets, the next Interest Payment Date, the interest rate applicable up to the next Interest Payment Date and the actual number of calendar days up to that date shall be determined by the Bond Trustee and promptly notified to the Bondholders, the Issuer, the Paying Agent, and if the Bonds are listed, the Exchange.

9.6 The payable interest amount per Bond for a relevant calculation period shall be calculated as follows:

Interest Amount	=	Face Value	x	Floating Rate	x	Floating Rate Day Count Fraction

10 Maturity of the Bonds and Change of Control

10.1 *Maturity*

The Bonds shall mature in full on the Maturity Date, and shall be repaid at par (100%) by the Issuer.

10.2 Change of control

10.2.1 Upon the occurrence of a Change of Control Event each Bondholder shall have a right of pre-payment (a " **Put Option** ") of its Bonds at a price of 100 % of par plus accrued and unpaid interest.

10.2.2 The Put Option must be exercised within 60 days after the Issuer has given notification to the Bond Trustee and the Bondholders of a Change of Control Event.

Such notification shall be given as soon as possible after a Change of Control Event has taken place.

The Put Option may be exercised by the Bondholders by giving written, irrevocable notice of the request to its Account Manager. The Account Manager shall notify the Paying Agent of the pre-payment request. The settlement date of the Put Option shall be fifteen – 15 – Business Days following the date when the Paying Agent received the repayment request.

10.2.3 On the settlement date of the Put Option, the Issuer shall pay to each of the Bondholders holding Bonds to be pre-paid, the principal amount of each such Bond and any unpaid interest accrued up to (but not including) the settlement date.

11 Payments

11.1 Payment mechanics

11.1.1 The Issuer shall pay all amounts due to the Bondholders under the Bonds and this Bond Agreement by crediting the bank account nominated by each Bondholder in connection with its securities account in the Securities Register.

11.1.2 Payment shall be considered to have been made once the amount has been credited to the bank which holds the bank account nominated by the Bondholder in question, but if the paying bank and the receiving bank are the same, payment shall be considered to have been made once the amount has been credited to the bank account nominated by the Bondholder in question, see however Clause 11.2.

11.2 Currency

11.2.1 If the Bonds are denominated in currencies other than NOK, each Bondholder must provide the Paying Agent (either directly or through its Account Manager) with specific payment instructions, including foreign exchange bank account details. Depending on the currency exchange settlement agreements between the Bondholders' bank and the Paying Agent, cash settlement may be delayed, in which case no default interest or other penalty shall accrue for the benefit of the Bondholders.

11.2.2 Except as otherwise expressly provided, all amounts payable under this Bond Agreement and any other Finance Document shall be payable in the same currency as the Bonds are denominated in. If, however, the Bondholder has not given instruction as set out in Clause 11.2.1, within 5 Business Days prior to a Payment Date, the cash settlement will be exchanged into NOK and credited to the NOK bank account registered with the Bondholders account in the Securities Register.

11.2.3 Amounts payable in respect of costs, expenses, Taxes and other liabilities shall be payable in the currency in which they are incurred.

11.3 Set-off and counterclaims

11.3.1 The Issuer may apply or perform any counterclaims or set-off against any payment obligations pursuant to this Bond Agreement or any other Finance Document.

11.4 Interest in the event of late payment

11.4.1 In the event that payment of interest or principal is not made on the relevant Payment Date, the unpaid amount shall bear interest from the Payment Date at an interest rate equivalent to the interest rate according to Clause 9 plus 5.00 percentage points.

11.4.2 The interest charged under this Clause 11.4 shall be added to the defaulted amount on each respective Interest Payment Date relating thereto until the defaulted amount has been repaid in full.

11.4.3 The unpaid amounts shall bear interest as stated above until payment is made, whether or not the Bonds are declared to be in default pursuant to Clause 15.1 (a), cf. Clauses 15.2 - 15.4.

11.5 Irregular payments

11.5.1 In case of interest payments made on a date other than the regularly scheduled payment date, the Bond Trustee may instruct the Issuer or Bondholders of other payment mechanisms than described in Clause 11.1 or 11.2 above. The Bond Trustee may also obtain payment information regarding Bondholders' accounts from the Securities Register or Account Managers.

12 Issuer's acquisition of Bonds

12.1 The Issuer has the right to acquire and own Bonds (Issuer's Bonds). The Issuer's Bonds may at the Issuer's discretion be retained by the Issuer, sold or discharged.

13 Covenants

13.1 General

13.1.1 The Issuer has undertaken the covenants in this Clause 13 to the Bond Trustee (on behalf of the Bondholders), as further stated below.

13.1.2 Subject to Section 18.2, the covenants in this Clause 13 shall remain in force from the date of this Bond Agreement and until such time that no amounts are outstanding under this Bond Agreement and any other Finance Document, unless the Bond Trustee (or Bondholders by action at a Bondholders Meeting, as the case may be), has agreed in writing to waive any covenant, and then only to the extent of such waiver, and on the terms and conditions set forth in such waiver.

13.2 Information Covenants

13.2.1 The Issuer shall

(a) without being requested to do so, immediately inform the Bond Trustee of any Default or Event of Default as well as of any circumstances which the Issuer understands would reasonably be expected to lead to an Event of Default;

(b) without being requested to do so, inform the Bond Trustee of any other event which could reasonably be expected to have a Material Adverse Effect;

(c) without being requested to do so, inform the Bond Trustee if the Issuer intends to sell or dispose of all or a substantial part of its assets or operations, or change the nature of its business;

(d) without being requested to do so, produce Financial Statements annually and Quarterly Financial Reports quarterly and make them available on its website in the English language as soon as they become available, and not later than 120 days after the end of the financial year and 60 days after the end of the relevant quarter, in each case subject to any exemption, waiver or extension granted by the Exchange or as permitted by any amendment to the Exchange listing rules;

(e) at the request of the Bond Trustee, report the balance of the Issuer's Bonds;

(f) without being requested to do so, send a copy to the Bond Trustee of its notices to the Exchange (if listed) which are of relevance for the Issuer's liabilities pursuant to this Bond Agreement;

(g) without being requested to do so, inform the Bond Trustee of changes in the registration of the Bonds in the Securities Register; and

(h) within a reasonable time, provide such information about the Issuer's financial condition as the Bond Trustee may reasonably request.

13.2.2 The Issuer shall at the request of the Bond Trustee provide the documents and information necessary to maintain the listing and quotation of the Bonds on the Exchange (if listed) and to otherwise enable the Bond Trustee to carry out its rights and duties pursuant to this Bond Agreement and the other Finance Documents, as well as applicable laws and regulations.

13.2.3 The Issuer shall in connection with the issue of its Financial Statements and Quarterly Reports under Clause 13.2.1. (d), confirm to the Bond Trustee in writing the Issuer's compliance with the covenants in Clause 13. Such confirmation shall be undertaken in a compliance certificate, substantially in the format set out in Attachment 1 hereto, signed by the Chief Executive Officer or Chief Financial Officer of the Issuer. In the event of non-compliance, the compliance certificate shall describe the non-compliance, the reasons therefore as well as the steps which the Issuer has taken and will take in order to rectify the non-compliance.

13.3 General Covenants

(a) Pari passu ranking

The Issuer's obligations under this Bond Agreement and any other Finance Document shall at all times rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors save for those whose claims that are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application and for other obligations that are mandatorily preferred by law applying to companies generally.

(b) Mergers

The Issuer shall not, and shall ensure that no Group Company shall, carry out any merger or other business combination or corporate reorganization involving consolidating the assets and obligations of any of the Group Companies with any other companies or entities not being a member of the Group if such transaction would have a Material Adverse Effect. The Issuer shall notify the Bond Trustee of any such transaction, providing relevant details thereof, as well as, if applicable, its reasons for believing that the proposed transaction would not have a Material Adverse Effect.

(c) De-mergers

The Issuer shall not, and shall ensure that no Group Company shall, carry out any de-merger or other corporate reorganization involving splitting any Group Company into two or more separate companies or entities, if such transaction would have a Material Adverse Effect. The Issuer shall notify the Bond Trustee of any such transaction, providing relevant details thereof, as well as, if applicable, its reasons for believing that the proposed transaction would not have a Material Adverse Effect.

(d) Continuation of business

(i) The Issuer shall not cease to carry on the general nature or scope of its business. The Issuer shall ensure that no Group Company shall cease to carry on the general nature or scope of its business, if such cessation would have a Material Adverse Effect.

(ii) The Issuer shall procure that no material change is made to the general nature or scope of the business of the Group from that carried on at the date of this Bond Agreement, or as contemplated by this Bond Agreement.

(e) Disposal of business

The Issuer shall not, and shall ensure that no Group Companies shall, be entitled to sell or otherwise dispose of all or a substantial part of the Group's aggregate assets or operations, unless

(i) the transaction is carried out at fair market value, on terms and conditions customary for such transactions; and

(ii) such transaction would not have a Material Adverse Effect.

13.4 Corporate and operational matters

(a) Related party transactions

The Issuer shall not engage in, or permit any member of the Group to engage in, directly or indirectly, any transaction with any affiliate of Teekay Corporation that is not a Group Company (without limitation, the purchase, sale or exchange of assets or the rendering of any service), except (i) pursuant to existing agreements and arrangements with such affiliates or (ii) transactions that are (A) approved by a majority of the members of the conflicts committee of the board of directors of the GP, (B) on terms no less favorable to the Issuer or such Group member than those generally being provided to or available from unrelated third parties, (C) fair and reasonable to the Issuer or such Group member, taking into account the totality of the relationships between the Group and the other parties involved (including other transactions that may be particularly favorable or advantageous to the Group) or (D) immaterial in amount or significance to the Issuer or the Group.

(b) Corporate status

The Issuer shall not, and shall ensure that no Group Company changes its type of organization or jurisdiction of organization unless such change in type or jurisdiction of organization would not have a Material Adverse Effect. Notwithstanding the foregoing, no change shall be made to the Issuer's type of organization or jurisdiction of organization or incorporation without prior delivery to the Bond Trustee of legal opinions in a form and content acceptable to the Bond Trustee from local counsel acceptable to the Bond Trustee, confirming inter alia (i) that the Issuer is legally organized or incorporated (as applicable) and validly existing under their new jurisdictions of organization or incorporation, (ii) the execution by the Issuer of the Finance Documents and the enforceability of the Finance Documents will remain valid and enforceable under the new jurisdiction of organization or incorporation, (iii) that the Issuer has full partnership or corporate power and capacity to enter into and perform the duties under the Finance Documents under its new jurisdiction of organization or incorporation, and (iv) that there are no other consents, approvals, authorisations or orders that have not been obtained and are required by the Issuer with respect to such change of its type of organization or jurisdiction of organization from any governmental or other regulatory agencies in the jurisdictions of organization or incorporation of the Issuer in connection with the Bonds and the performance by the Issuer of its obligations under the Finance Documents.

(c) Compliance with laws

The Issuer shall (and shall ensure that all Group Companies shall) comply in all material respects with all laws and regulations it or they may be subject to from time to time (including any environmental laws and regulations).

(d) Litigations

The Issuer shall, promptly upon becoming aware of them, send the Bond Trustee such relevant details of any:

(i) material litigations, arbitrations or administrative proceedings which have been started by or against any Group Company; and

(ii) other events which have occurred which have had or would reasonably be expected to have a Material Adverse Effect, as the Bond Trustee may reasonably request.

13.5 Financial Covenants and listing

(a) Free Liquidity

The Issuer shall, at any time during the term of the Bonds, ensure that the Group on a consolidated basis maintains the following financial covenants:

(i) aggregate Free Liquidity and undrawn committed revolving credit lines available to the Group (but excluding committed revolving credit lines with less than six months to maturity) of a minimum of USD 75,000,000; and

(ii) the aggregate of such Free Liquidity and undrawn committed revolving credit lines shall not be less than 5% of Total Debt.

(b) Listing of Issuer’s common units

The Issuer shall ensure that the Issuer’s common units remain listed on the New York Stock Exchange or another recognized stock exchange.

14 Fees and expenses

14.1 The Issuer shall cover all its own expenses in connection with this Bond Agreement and fulfillment of its obligations under this Bond Agreement, including preparation of this Bond Agreement, preparation of the Finance Documents and any registration or notifications relating thereto, listing of the Bonds on the Exchange (if applicable), and the registration and administration of the Bonds in the Securities Register.

14.2 The expenses and fees payable to the Bond Trustee shall be paid by the Issuer and are set forth in a separate agreement between the Issuer and the Bond Trustee. Fees and expenses payable to the Bond Trustee which, due to the Issuer’s insolvency or similar, are not reimbursed in any other way may be covered by making an equivalent reduction in the payments to the Bondholders.

14.3 The Issuer shall cover all public fees in connection with the Bonds and the Finance Documents; provided, however, that any public fees levied on the trade of Bonds in the secondary market shall be paid by the Bondholders, unless otherwise provided by law or regulation, and the Issuer is not responsible for reimbursing any such fees.

14.4 In addition to the fee due to the Bond Trustee pursuant to Clause 14.2 and normal expenses pursuant to Clauses 14.1 and 14.3, the Issuer shall, on demand, cover extraordinary expenses incurred by the Bond Trustee in connection with the Bonds, as determined in a separate agreement between the Issuer and the Bond Trustee.

14.5 The Issuer is responsible for withholding any withholding tax imposed by applicable law on any payments to the Bondholders.

15 Events of Default

15.1 Subject to Clause 15.2 or 15.3, the Bonds may be declared by the Bond Trustee to be in default upon occurrence of any of the following events (which shall be referred to as an " **Event of Default** ") if:

(a) Non-payment

The Issuer fails to fulfill any payment obligation under this Bond Agreement or any Finance Document when due, unless, in the opinion of the Bond Trustee, it is obvious that such failure will be remedied, and payment in full of any such late payment is made, within 5 – five – Business Days following the original due date.

(b) Breach of other obligations

The Issuer or any other Group Company fails to duly perform any other covenant or obligation pursuant to this Bond Agreement or any of the Finance Documents, and such failure is not remedied within 10 – ten – Business Days after notice thereof is given to the Issuer by the Bond Trustee.

(c) Cross default

The aggregate amount of Financial Indebtedness or committed Financial Indebtedness of the Group or any Group Company falling within paragraphs (i) to (iv) below exceeds a total of USD 50 million, or the equivalent thereof in other currencies;

(i) any Financial Indebtedness is not paid when due and after giving effect to any applicable grace period,

(ii) any Financial Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described),

(iii) any commitment for any Financial Indebtedness is cancelled or suspended by a creditor as a result of an event of default (however described) and such cancellation and suspension would have a Material Adverse Effect, or

(iv) any creditor becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity as a result of an event of default (however described).

(d) Misrepresentations

Any representation, warranty or statement (including statements in compliance certificates) made under this Bond Agreement or in connection therewith, taken as a whole with all other such representations, warranties and statements, is or proves to have been incorrect, inaccurate or misleading in any material respect when made or deemed to have been made.

(e) Insolvency

The following occurs in respect of the Issuer or Material Subsidiary:

(i) general suspension of payments, or a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) under any law relating to bankruptcy, insolvency or reorganization or relief of debtors,

(ii) a composition, compromise, assignment or arrangement with any creditor which has a material adverse effect on the Issuer's ability to perform its payment obligations under this Bond Agreement, or

(iii) the appointment of a liquidator (other than in respect of a solvent liquidation), receiver, administrative receiver, administrator, compulsory manager or other similar officer of any substantial part of its assets.

(f) Creditors' process

The Issuer or any Material Subsidiary has a substantial portion of its assets impounded, confiscated, attached or subject to distraint, or is subject to enforcement of any security over any substantial portion of its assets.

(g) Dissolution, appointment of liquidator or analogous proceedings

The Issuer or any Material Subsidiary is resolved to be dissolved or a liquidator, administrator or the like is appointed or requested to be appointed under any law relating to bankruptcy, insolvency or reorganization or relief of debtors.

(h) Impossibility or illegality

It is or becomes impossible or unlawful for any Group Company or the Issuer to fulfill or perform any of the material terms of the Finance Documents to which it is a party.

(i) Litigation

Any claim, litigation, arbitration or administrative proceedings against any Group Company or the Issuer is adversely determined against the Group Company or the Issuer and has (or, in the reasonable opinion of the Bond Trustee, after consultations with the Issuer, would reasonably be expected to have) a Material Adverse Effect.

(j) Material adverse effect

Any event or series of events occurs which, in the reasonable opinion of the Bond Trustee, after consultations with the Issuer, has a Material Adverse Effect.

15.2 In the event that one or more of the circumstances mentioned in Clause 15.1 occurs and is continuing, the Bond Trustee can, in order to protect the interests of the Bondholders, declare the Outstanding Bonds including accrued interest and expenses to be in default and due for immediate payment.

The Bond Trustee may at its discretion, on behalf of the Bondholders, take every measure necessary to recover the amounts due under the Outstanding Bonds, and all other amounts outstanding under the Bond Agreement and any other Finance Document.

15.3 In the event that one or more of the circumstances mentioned in Clause 15.1 occurs and is continuing, the Bond Trustee shall declare the Outstanding Bonds including accrued interest and expenses to be in default and due for payment if:

(a) the Bond Trustee receives a demand in writing with respect to the above from Bondholders representing at least 1/5 of the aggregate principal amount of Voting Bonds, and the Bondholders' Meeting has not decided on other solutions, or

(b) the Bondholders pursuant to action at a Bondholders' Meeting have decided to declare the Outstanding Bonds in default and due for payment.

In either case the Bond Trustee shall on behalf of the Bondholders take every measure necessary to recover the amounts due under the Outstanding Bonds. The Bond Trustee can request satisfactory security for any possible liability and anticipated expenses, from those Bondholders who requested that the declaration of default be made pursuant to sub clause (a) above and/or those who voted in favour of the decision pursuant to sub clause (b) above.

15.4 In the event that the Bond Trustee pursuant to the terms of Clauses 15.2 or 15.3 declares the Outstanding Bonds to be in default and due for payment, the Bond Trustee shall immediately deliver to the Issuer a notice demanding payment of interest and principal due to the Bondholders under the Outstanding Bonds including accrued interest and interest on overdue amounts and expenses.

16 Bondholders' meeting

16.1 Authority of the Bondholders' meeting

16.1.1 The Bondholders' Meeting represents the supreme authority of the Bondholders community in all matters relating to the Bonds. If a resolution by or an approval of the Bondholders is required, resolution of such shall be passed at a Bondholders' Meeting. Resolutions passed at Bondholders' Meetings shall be binding upon and prevail for all the Bonds and Bondholders.

16.2 Procedural rules for Bondholders' meetings

16.2.1 A Bondholders' Meeting shall be held at the request of:

(a) the Issuer,

(b) Bondholders representing at least 1/10 of the aggregate principal amount of Voting Bonds,

(c) the Exchange, if the Bonds are listed, or

(d) the Bond Trustee.

16.2.2 The Bondholders' Meeting shall be summoned by the Bond Trustee. A request for a Bondholders' Meeting shall be made in writing to the Bond Trustee, and shall clearly state the matters to be discussed.

16.2.3 If the Bond Trustee has not summoned a Bondholders' Meeting within 10 – ten – Business Days after having received such a request, then the requesting party may summons the Bondholders' Meeting itself.

16.2.4 Summons to a Bondholders Meeting shall be dispatched no later than 10 – ten – Business Days prior to the Bondholders' Meeting. The summons and a confirmation of each Bondholder's holdings of Bonds shall be sent to all Bondholders registered in the Securities Register at the time of distribution, with a copy to the Issuer. The summons shall also be sent to the Exchange for publication.

16.2.5 The summons shall specify the agenda of the Bondholders' Meeting. The Bond Trustee may in the summons also set forth other matters on the agenda than those requested. If amendments to this Bond Agreement have been proposed, the main content of the proposal shall be stated in the summons.

16.2.6 The Bond Trustee may restrict the Issuer from making any changes of Voting Bonds in the period from distribution of the summons until the Bondholders' Meeting, by serving notice to it to such effect.

16.2.7 Matters that have not been reported to the Bondholders in accordance with the procedural rules for summoning of a Bondholders' Meeting may only be adopted with the approval of all Voting Bonds.

16.2.8 The Bondholders' Meeting shall be held on premises designated by the Bond Trustee. The Bondholders' Meeting shall be opened and shall, unless otherwise decided by the Bondholders' Meeting, be chaired by the Bond Trustee. If the Bond Trustee is not present, the Bondholders' Meeting shall be opened by a Bondholder, and be chaired by a representative elected by the Bondholders' Meeting.

16.2.9 Minutes of the Bondholders' Meeting shall be kept. The minutes shall state the numbers of Bondholders represented at the Bondholders' Meeting, the resolutions passed at the meeting, and the result of the voting. The minutes shall be signed by the chairman and at least one other person elected by the Bondholders' Meeting. The minutes shall be deposited with the Bond Trustee and shall be available to the Bondholders.

16.2.10 The Bondholders, the Bond Trustee and – provided the Bonds are listed - representatives of the Exchange, have the right to attend the Bondholders' Meeting. The chairman may grant access to the meeting to other parties, unless the Bondholders' Meeting decides otherwise. Bondholders may attend by a representative holding proxy. Bondholders have the right to be assisted by an advisor. In case of dispute the chairman shall decide who may attend the Bondholders' Meeting and vote the Bonds.

16.2.11 Representatives of the Issuer have the right to attend the Bondholders' Meeting. The Bondholders' Meeting may resolve that the Issuer's representatives may not participate in particular matters. The Issuer has the right to be present during the voting.

16.3 Resolutions passed at Bondholders' meetings

16.3.1 At the Bondholders' Meeting each Bondholder may cast one vote for each Voting Bond owned at close of business on the day prior to the date of the Bondholders' Meeting in accordance with the records registered in the Securities Register. Whoever opens the Bondholders' Meeting shall adjudicate any question concerning which Bonds shall count as the Issuer's Bonds. The Issuer's Bonds shall not have any voting rights.

16.3.2 In all matters, the Issuer, the Bond Trustee and any Bondholder have the right to demand vote by ballot. In case of parity of votes, the chairman shall have the deciding vote, regardless of the chairman being a Bondholder or not.

16.3.3 In order to form a quorum, at least half (1/2) of the aggregate principal amount of the Voting Bonds must be represented at the meeting, see however Clause 16.4. Even if less than half (1/2) of the aggregate principal amount of the Voting Bonds are represented, the Bondholders' Meeting shall be held and voting completed.

16.3.4 If a quorum exists, resolutions shall be passed by simple majority of the Voting Bonds represented at the Bondholders' Meeting, unless otherwise set forth in Clause 16.3.5.

16.3.5 In the following matters, approval by the holders of at least 2/3 of the aggregate principal amount of the Voting Bonds represented at the Bondholders' Meeting is required:

(a) amendment of the terms of this Bond Agreement regarding the interest rate, the tenor, redemption price and other terms and conditions directly affecting the cash flow of the Bonds;

(b) transfer of rights and obligations of this Bond Agreement to another issuer (Issuer), or

(c) change of Bond Trustee.

16.3.6 The Bondholders' Meeting may not adopt resolutions which may give certain Bondholders or others an unreasonable advantage at the expense of other Bondholders.

16.3.7 The Bond Trustee shall ensure that resolutions passed at the Bondholders' Meeting are properly implemented.

16.3.8 The Issuer, the Bondholders and the Exchange shall be notified of resolutions passed at the Bondholders' Meeting.

16.4 Repeated Bondholders' meeting

16.4.1. If the Bondholders' Meeting does not form a quorum pursuant to Clause 16.3.3, a repeated Bondholders' Meeting may be summoned to vote on the same matters. The attendance and the voting result of the first Bondholders' Meeting shall be specified in the summons for the repeated Bondholders' Meeting.

16.4.2 When a matter is tabled for discussion at a repeated Bondholders' Meeting, a valid resolution may be passed even though less than half (1/2) of the aggregate principal amount of the Voting Bonds are represented.

17 The Bond Trustee

17.1 The role and authority of the Bond Trustee

17.1.1 The Bond Trustee shall monitor the compliance by the Issuer of its obligations under this Bond Agreement and applicable laws and regulations which are relevant to the terms of this Bond Agreement, including supervision of timely and correct payment of principal or interest, inform the Bondholders, the Paying Agent and the Exchange of relevant information which is obtained and received in its capacity as Bond

Trustee (however, this shall not restrict the Bond Trustee from discussing matters of confidentiality with the Issuer), arrange Bondholders' Meetings, and make the decisions and implement the measures resolved pursuant to this Bond Agreement. The Bond Trustee is not obligated to assess the Issuer's financial situation beyond what is directly set forth in this Bond Agreement.

17.1.2 The Bond Trustee may take any step necessary to ensure the rights of the Bondholders in all matters pursuant to the terms of this Bond Agreement. The Bond Trustee may postpone taking action until such matter has been put forward to the Bondholders' Meeting.

17.1.3 Except as provided for in Clause 17.1.5 the Bond Trustee may reach decisions binding for all Bondholders concerning this Bond Agreement, including amendments to the Bond Agreement and waivers or modifications of certain provisions, which in the opinion of the Bond Trustee, do not have a Material Adverse Effect on the rights or interests of the Bondholders pursuant to this Bond Agreement.

17.1.4 Except as provided for in Clause 17.1.5, the Bond Trustee may reach decisions binding for all Bondholders in circumstances other than those mentioned in Clause 17.1.3 provided prior notification has been made to the Bondholders. Such notice shall contain a proposal of the amendment and the Bond Trustee's evaluation. Further, such notification shall state that the Bond Trustee may not reach a decision binding for all Bondholders in the event that any Bondholder submits a written protest against the proposal within a deadline set by the Bond Trustee. Such deadline may not be less than five (5) Business Days following the dispatch of such notification.

17.1.5 The Bond Trustee may not reach decisions pursuant to Clauses 17.1.3 or 17.1.4 for matters set forth in Clause 16.3.5 except to rectify obvious incorrectness, vagueness or incompleteness.

17.1.6 The Bond Trustee may not adopt resolutions which may give certain Bondholders or others an unreasonable advantage at the expense of other Bondholders.

17.1.7 The Issuer, the Bondholders and the Exchange shall be notified of decisions made by the Bond Trustee pursuant to Clause 17.1 unless such notice obviously is unnecessary.

17.1.8 The Bondholders through action at a Bondholders' Meeting may replace the Bond Trustee without the Issuer's approval, as provided for in Clause 16.3.5.

17.2 Liability and indemnity

17.2.1 The Bond Trustee is liable only for direct losses incurred by Bondholders or the Issuer as a result of negligence or willful misconduct by the Bond Trustee in performing its functions and duties as set forth in this Bond Agreement. The Bond Trustee is not liable for the content of information provided to the Bondholders on behalf of the Issuer.

17.2.2 The Issuer is liable for, and shall indemnify the Bond Trustee fully in respect of, all losses, expenses and liabilities incurred by the Bond Trustee as a result of negligence by the Issuer (including its directors, management, officers, employees, agents and representatives) to fulfill its obligations under the terms of this Bond Agreement and any other Finance Documents, including losses incurred by the Bond Trustee as a result of the Bond Trustee's actions based on misrepresentations made by the Issuer in connection with the establishment and performance of this Bond Agreement and the other Finance Documents.

17.3 Change of Bond Trustee

17.3.1 Change of Bond Trustee shall be carried out pursuant to the procedures set forth in Clause 16. The Bond Trustee shall continue to carry out its duties as bond trustee until such time that a new Bond Trustee is elected.

17.3.2 The fees and expenses of a new bond trustee shall be covered by the Issuer pursuant to the terms set out in Clause 14, but may be recovered wholly or partially from the Bond Trustee if the change is due to a breach of the Bond Trustee duties pursuant to the terms of this Bond Agreement or other circumstances for which the Bond Trustee is liable.

17.3.3 The Bond Trustee undertakes to co-operate so that the new bond trustee receives without undue delay following the Bondholders' Meeting the documentation and information necessary to perform the functions as set forth under the terms of this Bond Agreement.

18 Miscellaneous

18.1 The community of Bondholders

18.1 By virtue of holding Bonds, which are governed by this Bond Agreement (which pursuant to Clause 2.1.1 is binding upon all Bondholders), a community exists between the Bondholders, implying, inter alia, that

(a) the Bondholders are bound by the terms of this Bond Agreement,

(b) the Bond Trustee has power and authority to act on behalf of the Bondholders,

(c) the Bond Trustee has, in order to administer the terms of this Bond Agreement, access to the Securities Register to review ownership of Bonds registered in the Securities Register,

(d) this Bond Agreement establishes a community between Bondholders meaning that;

(i) the Bonds rank pari passu between each other,

(ii) the Bondholders may not, based on this Bond Agreement, act directly towards the Issuer and may not themselves institute legal proceedings against the Issuer, provided, however that this provision shall not restrict the Bondholders from exercising any of their individual rights derived from the Bond Agreement.

(iii) the Issuer may not, based on this Bond Agreement, act directly towards the Bondholders,

(iv) the Bondholders may not cancel the Bondholders' community, and

(v) an individual Bondholder may not resign from the Bondholders' community.

18.2 Defeasance

18.2.1 The Issuer may, at its option and at any time, elect to have certain obligations discharged (see Clause 18.2.2) upon complying with the following conditions (" **Covenant Defeasance** ");

(a) the Issuer shall have irrevocably pledged to the Bond Trustee for the benefit of the Bondholders cash or government obligations acceptable by the Bond Trustee (the " **Defeasance Pledge** ") in such amounts as will be sufficient for the payment of principal and interest on the Outstanding Bonds to Maturity Date;

(b) the Issuer shall, if required by the Bond Trustee, provide a legal opinion reasonably acceptable to the Bond Trustee to the effect that the Bondholders will not recognize income, gain or loss for income tax purposes (under US federal or Norwegian tax law, if applicable) as a result of the Defeasance Pledge and Covenant Defeasance, and will be subject to such income tax on the same amount and in the same manner and at the same times as would have been the case if the Defeasance Pledge had not occurred;

(c) no Event of Default shall have occurred and be continuing on the date of establishment of the Defeasance Pledge, or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 181st day after the date of establishment of the Defeasance Pledge;

(d) neither the Defeasance Pledge nor the Covenant Defeasance results in a breach or violation of any material agreement or instrument binding upon the Issuer, or the certificate of association or partnership agreement governing the Issuer;

(e) the Issuer shall have delivered to the Bond Trustee a certificate signed by the Chief Financial Officer of the GP that the Defeasance Pledge was not made by the Issuer with the intent of preferring the Bondholders over any other creditors of the Issuer or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuer or others;

(f) the Issuer shall have delivered to the Bond Trustee any certificate or legal opinion reasonably required regarding the Covenant Defeasance or Defeasance Pledge (including certificate from the Chief Financial Officer of the GP and a legal opinion from its legal counsel to the effect that all conditions for Covenant Defeasance have been complied with; and that (i) the Defeasance Pledge will not be subject to any rights of creditors of the Issuer, (ii) the Defeasance Pledge will constitute a valid, perfected and enforceable security interest in favour of the Bond Trustee for the benefit of the Bondholders, and (iii) after the 181st day following the establishment of the Defeasance Pledge, the funds and assets so pledged will not be subject to the effects of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors rights generally under the laws of the jurisdiction where the Defeasance Pledge was established and the corporate domicile of the Issuer.

18.2.2 Upon the exercise by the Issuer of its option under Clause 18.2.1;

(a) the Issuer shall be released from their obligations under all provisions in Clause 13, except 13.2.1 (a), (g) and (h).

(b) the Issuer shall not (and shall ensure that all Group Companies shall not) take any actions that may cause the value of the security interest created by this Covenant Defeasance to be reduced, and shall at the request of the Bond Trustee execute, or cause to be executed, such further documentation and perform such other acts as the Bond Trustee may reasonably require in order for the security interests to remain valid, enforceable and perfected by the Bond Trustee for the account of the Bondholders;

(c) any guarantor of the Issuer's obligations under the Bonds shall be discharged from their obligations under the related guarantee, and the guarantee(s) shall cease to have any legal effect;

(d) all other provisions of the Bond Agreement (except to the extend indicated in clauses (a) – (c) above) shall remain fully in force without any modifications.

18.2.3 All moneys covered by the Defeasance Pledge shall be applied by the Bond Trustee, in accordance with the provisions of this Bond Agreement, to the payment to the Bondholders of all sums due to them under this Bond Agreement on the due date thereof.

Any excess funds not required for the payment of principal, premium and interest to the Bondholders (including any expenses and fees due to the Bond Trustee hereunder) shall be returned to the Issuer.

18.3 Limitation of claims

18.3.1 All claims under the Bonds and this Bond Agreement for payment, including interest and principal, shall be subject to the time-bar provisions of the Norwegian Limitation Act of May 18, 1979 No. 18.

18.4 Access to information

18.4.1 The Bond Agreement is available to anyone and copies may be obtained from the Bond Trustee or the Issuer. The Issuer shall ensure that the Bond Agreement is available in copy form to the general public until all the Bonds have been fully discharged.

18.4.2 The Bond Trustee shall, in order to carry out its functions and obligations under the Bond Agreement, have access to the Securities Register for the purposes of reviewing ownership of the Bonds registered in the Securities Register.

18.5 Amendments

18.5.1 All amendments of this Bond Agreement shall be made in writing, and shall unless otherwise provided for by this Bond Agreement, only be made with the approval of all parties hereto.

18.6 Notices, contact information

18.6.1 Written notices, warnings, summons and other communications to the Bondholders made by the Bond Trustee shall be sent via the Securities Register with a copy to the Issuer and the Exchange. Information to the Bondholders may, in lieu of the requirement in the immediately preceding sentence, be published at the web site www.stamdata.no.

18.6.2 The Issuer's written notifications to the Bondholders shall be sent via the Bond Trustee, or alternatively through the Securities Register with a copy to the Bond Trustee and the Exchange.

18.6.3 Unless otherwise specifically provided, all notices or other communications under or in connection with this Bond Agreement between the Bond Trustee and the Issuer shall be given or made in writing, by letter, or facsimile. Any such notice or communication shall be deemed to be given or made as follows:

(a) if by letter, when delivered at the address of the relevant Party;

(b) if by facsimile, when received.

However, a notice given in accordance with the above but received on a day which is not a business day in the place of receipt, or after 5:00 p.m. on such a business day, shall only be deemed to be given at 9:00 a.m. on the next business day in that place.

18.6.4 The Issuer and the Bond Trustee shall ensure that the other party is kept informed of changes in postal address, e-mail address, telephone and fax numbers and contact persons.

18.7 Dispute resolution and legal venue

18.7 This Bond Agreement and all disputes arising out of, or in connection with this Bond Agreement between the Bond Trustee, the Bondholders and the Issuer, shall be governed by Norwegian law.

All disputes arising out of, or in connection with this Bond Agreement between the Bond Trustee, the Bondholders and the Issuer, shall be exclusively resolved by the courts of Norway, with the District Court of Oslo as sole legal venue.

18.8 Service of process

18.8.1 Without prejudice to any other mode of service, the Issuer:

(a) irrevocably appoints Teekay Shipping Norway AS (a limited liability company incorporated in Norway with Company No. 964 111 723) as its agent for service of process relating to any proceedings before the Norwegian courts in connection with any Finance Document;

(b) agrees that failure by the process agent to notify it of the process will not invalidate the proceedings concerned; and

(c) consents to the service of process relating to any such proceedings before the Norwegian courts by prepaid posting of a copy of the process to its address stated in this Bond Agreement.

*****

This Bond Agreement has been executed in two originals, of which the Issuer and the Bond Trustee retain one each.

The Issuer: **TEEKAY OFFSHORE PARTNERS L.P.**	**The Bond Trustee:** **NORSK TILLITSMANN ASA**
By: Teekay Offshore GP L.L.C., its general partner	
By:	By:
Position:	Position:

Attachment 1

COMPLIANCE CERTIFICATE

Norsk Tillitsmann ASA
P.O. Box 1470 Vika
N-0116 Oslo
Norway

Fax: + 47 22 87 94 10
E-mail: mail@trustee.no

[date]

Dear Sirs,

TEEKAY OFFSHORE PARTNERS L.P. BOND AGREEMENT 2013/2016 - ISIN 001 0670110

We refer to the Bond Agreement for the above mentioned Bond Issue made between Norsk Tillitsmann ASA as Bond Trustee on behalf of the Bondholders, and the undersigned as Issuer under which a Compliance Certificate shall be issued. This letter constitutes the Compliance Certificate for the period [PERIOD].

Capitalised words and expressions are used herein as defined in the Bond Agreement.

With reference to Clause 13.2.3 we hereby certify that:

1. all information contained herein is true and accurate and there has been no change which would reasonably be expected to have a material adverse effect on the financial condition of the Issuer since the date of the last accounts or the last Compliance Certificate submitted to you.
2. the covenants set out in Clause 13 are satisfied in all material respects;
3. in accordance with Clause 13.5(a)(i), the Free Liquidity and undrawn committed revolving credit lines available to the Group (but excluding committed revolving credit lines with less than six months to maturity) is [ ]
4. in accordance with Clause 13.5(a)(ii), the percentage of Free Liquidity and undrawn committed revolving credit lines to Total Debt is [ ]

Copies of our latest consolidated [annual audited/quarterly unaudited] accounts are enclosed.

Yours faithfully,

Teekay Offshore Partners L.P.

By: Teekay Offshore GP L.L.C., its general partner

____

Name of authorized person

Enclosure: [*copy of any written documentation*]

Exhibit 2.4

ISIN NO 001 0670128

BOND AGREEMENT

between

Teekay Offshore Partners L.P.

(Issuer)

and

Norsk Tillitsmann ASA

(Bond Trustee)

on behalf of

the Bondholders

in the bond issue

FRN Teekay Offshore Partners L.P.
Senior Unsecured Bond Issue 2013/2018

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This bond agreement has been entered into on 21 January 2013 between

(1) Teekay Offshore Partners L.P. (a limited partnership organized in the Marshall Islands with Company No. 950010), as issuer (the " **Issuer** "), and

(2) Norsk Tillitsmann ASA (a company incorporated in Norway with Company No. 963 342 624), as bond trustee (the " **Bond Trustee** ").

1 Interpretation

1.1 Definitions

In this Bond Agreement the following terms shall have the following meanings (certain terms relevant for Clauses 1.2 and 18.2 and other Clauses may be defined in the relevant Clause):

" **Account Manager** " means a Bondholder's account manager in the Securities Register.

" **Attachment** " means any attachments to this Bond Agreement.

" **Bond Agreement** " means this bond agreement, including any Attachments to which it refers, and any subsequent amendments and additions agreed between the Parties.

" **Bond Issue** " means the bond issue constituted by the Bonds.

" **Bond Reference Rate** " means 3 months NIBOR.

" **Bondholder** " means a holder of Bond(s), as registered in the Securities Register, from time to time.

" **Bondholders' Meeting** " means a meeting of Bondholders, as set forth in Clause 16.

" **Bonds** " means the securities issued by the Issuer pursuant to this Bond Agreement, representing the Bondholders' underlying claim on the Issuer.

" **Business Day** " means any day on which commercial banks are open for general business, and can settle foreign currency transactions in Oslo.

" **Business Day Convention** " means that if the relevant Interest Payment Date falls on a day that is not a Business Day, that date will be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day (*Modified Following Business Day Convention*).

"**Change of Control Event**" means:

(1) an event where the Issuer ceases to hold, directly or indirectly, 100 % of the ownership and voting rights of Teekay Offshore Operating L.P. (a limited partnership organized in Marshall Islands with Company No. 950011);

or

(2) an event where Teekay Corporation (a company incorporated in the Marshall Islands with Company No. 3521) ceases to hold, directly or indirectly, a minimum of 51% of the ownership and voting rights of the GP, which conducts, directs and manages all activities of the Issuer.

"**Costs**" means all costs, expenses, disbursements, payments, charges, losses, demands, claims, liabilities, penalties, fines, damages, judgments, orders, sanctions, fees (including travel expenses, VAT, court fees and legal fees) and any other outgoings of whatever nature.

"**Default**" means an Event of Default or any event or circumstance specified in Clause 15.1 (Events of Default) which would (with the giving of notice, lapse of time, determination of materiality or the fulfillment of any other applicable condition or any combination of the foregoing) be an Event of Default under any Finance Document.

"**Encumbrance**" means any encumbrance, mortgage, pledge, lien, charge (whether fixed or floating), assignment by way of security, finance lease, sale and repurchase or sale and leaseback arrangement, sale of receivables on a recourse basis or security interest or any other agreement or arrangement having the effect of conferring security.

"**Event of Default**" means the occurrence of an event or circumstance specified in Clause 15.1.

"**Exchange**" means securities exchange or other reputable marketplace for securities, on which the Bonds are listed, or where the Issuer has applied for listing of the Bonds.

"**Finance Documents**" means (i) this Bond Agreement, (ii) the agreement between the Bond Trustee and the Issuer referred to in Clause 14.2, and (iii) any other document (whether creating a security interest or not) which is executed at any time by the Issuer in relation to any amount payable under this Bond Agreement.

"**Financial Indebtedness**" means any indebtedness incurred in respect of:

(a) moneys borrowed, including acceptance credit;

(b) any bond, note, debenture, loan stock or other similar instrument;

(c) the amount of any liability in respect of any lease, hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;

(d) receivables sold or discounted (other than any receivables sold on a non-recourse basis);

(e) any sale and lease-back transaction, or similar transaction which is treated as indebtedness under GAAP;

(f) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price, including without limitation currency or interest rate swaps, caps or collar transactions (and, when calculating the value of the transaction, only the mark-to-market value of the applicable derivative shall be taken into account);

(h) any amounts raised under any other transactions having the commercial effect of a borrowing or raising of money, whether recorded in the balance sheet or not (including any forward sale of purchase agreement);

(i) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institutions; and

(j) (without double counting) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any of the items referred to in (a) through (i) above.

“ **Financial Statements** ” means the audited unconsolidated and consolidated annual accounts and financial statements of the Issuer for any financial year, drawn up according to GAAP, such accounts to include a profit and loss account, balance sheet and cash flow statement.

“ **Free Liquidity** ” means, at any time, cash, cash equivalents and marketable securities (with investment grade rating from S&P and/or Moody’s Investors Service) of maturities less than one (1) year, to which the Group shall have free, immediate and direct access each as reflected in the Issuer’s most recent quarterly, consolidated financial statements. For the avoidance of doubt, Free Liquidity shall not be subject to any Encumbrance.

“ **GAAP** ” means the generally accepted accounting principles in the United States of America, in force from time to time.

“ **GP** ” means Teekay Offshore GP L.L.C., a Marshall Islands limited liability company with Company No. 960881, which is the general partner of the Issuer, which is a limited partnership formed under the Marshall Islands Limited Partnership Act and governed by a limited partnership agreement. Under such Act and partnership agreement, the GP manages the operations and activities of the Issuer.

“ **Group** ” means the Issuer and its Subsidiaries, and a **“Group Company”** means the Issuer or any of its Subsidiaries.

“ **Interest Payment Date** ” means 25 January, 25 April, 25 July and 25 October each year and the Maturity Date. Any adjustment will be made according to the Business Day Convention.

" **ISIN** " means International Securities Identification Numbering system – the identification number of the Bonds.

" **Issue Date** " means 25 January 2013.

" **Issuer's Bonds** " means Bonds owned by the Issuer, any party or parties who has decisive influence over the Issuer, or any party or parties over whom the Issuer has decisive influence.

" **Manager** " means the manager for the Bond Issue.

"Margin " means 4.75 percentage points per annum.

" **Material Adverse Effect** " means a material adverse effect on: (a) the business, financial condition or operations of the Issuer and/or the Group taken as a whole, (b) the Issuer's ability to perform and comply with its obligations under the Bond Agreement; or (c) the validity or enforceability of the Bond Agreement.

" **Material Subsidiary** " means:

(i) any Subsidiary whose total consolidated assets represent at least 10 % of the total consolidated assets of the Group, or

(ii) any Subsidiary whose total consolidated revenues represent at least 10 % of the total consolidated net sales of the Group.

" **Maturity Date** " means 25 January 2018 or an earlier maturity date as provided for in this Bond Agreement. Any further adjustment may be made according to the Business Day Convention.

" **NIBOR** " means that the rate for an interest period will be the rate for deposits in Norwegian Kroner for a period as defined under Bond Reference Rate which appears on the Reuters Screen NIBR Page as of 12.00 noon, Oslo time, on the day that is two Business Days preceding that Interest Payment Date. If such rate does not appear on the Reuters Screen NIBR Page, the rate for that Interest Payment Date will be determined as if the Bond Reference Rate is 3 months NIBOR Reference Rate as the applicable floating rate option.

" **NIBOR Reference Rate"** means that the rate for an interest period will be determined on the basis of the rates at which deposits in Norwegian Kroner are offered by four large authorised exchange banks in the Oslo market (the " **Reference Banks** ") at approximately 12.00 noon, Oslo time, on the day that is two Business Days preceding that Interest Payment Date to prime banks in the Oslo interbank market for a period as defined under Bond Reference Rate commencing on that Interest Payment Date and in a representative amount. The Bond Trustee will request the principal Oslo office of each Reference Bank to provide a quotation of its rate. If at least two such quotations are provided, the rate for that Interest Payment Date shall be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that Interest Payment Date will be the arithmetic mean of the rates quoted by major banks in Oslo, selected by the Bond Trustee, at approximately 12.00 noon, Oslo time, on that Interest Payment Date for loans in

Norwegian kroner to leading European banks for a period as defined under Bond Reference Rate commencing on that Interest Payment Date and in a representative amount.

“ **NOK** ” means Norwegian kroner, being the lawful currency of Norway.

“ **Outstanding Bonds** ” means the aggregate principal amount of the total number of Bonds not redeemed or otherwise discharged.

“ **QIB** ” means a “qualified institutional buyer” as defined in Rule 144A under the US Securities Act.

“ **Party** ” means a party to this Bond Agreement (including its successors and permitted transferees).

“ **Paying Agent** ” means any legal entity as appointed by the Issuer and approved by the Bond Trustee who acts as paying agent on behalf of the Issuer with respect to the Bonds.

“ **Payment Date** ” means a date for payment of principal or interest.

“ **Quarter Date** ” means each 31 March, 30 June, 30 September and 31 December.

“ **Quarterly Financial Reports** ” means the unaudited unconsolidated and consolidated financial statements of the Issuer as of each Quarter Date, prepared in accordance with GAAP, such accounts to include a profit and loss account, balance sheet and cash flow statement.

“ **Securities Register** ” means the securities register in which the Bond Issue is registered.

“ **Securities Register Act** ” means the Norwegian Act relating to Registration of Financial Instruments of 5 July 2002 No. 64.

“ **Subsidiary”** means an entity over which another entity or person has a determining influence due to (i) direct and indirect ownership of shares or other ownership interests, (ii) control of the general partner of any such other entity that is a limited partnership and/or (iii) agreement, understanding or other arrangement. An entity shall always be considered to be the subsidiary of another entity or person if such entity or person has such number of shares or ownership interests so as to represent the majority of the votes in the entity, or has the right to elect or dismiss a majority of the directors in the entity.

“ **Taxes** ” means all present and future taxes, levies, imposts, duties, charges, fees, deductions and withholdings, and any restrictions and or conditions resulting in a charge together with interest thereon and penalties in respect thereof and “ **Tax** ” and “ **Taxation** ” shall be construed accordingly.

“ **Total Debt** ” means, at any time, on a consolidated basis of the Group, the aggregate of:

(i) the amount calculated in accordance with GAAP shown as each of “long term debt”, “short term debt” and “current portion of long term debt” on the latest consolidated balance sheet of the Issuer; and

(ii) the amount of any liability in respect of any lease or hire purchase contract entered into by the Issuer or any of its Subsidiaries which would, in accordance with GAAP, be treated as a finance or capital lease (excluding any amounts applicable to leases to the extent that the lease obligations are secured by a security deposit which is held on the balance sheet under “restricted cash”).

“ **US Person** ” has the meaning ascribed to such term in Regulation S under the US Securities Act.

“ **US Securities Act** ” means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“ **USD** ” means US Dollars, being the legal currency of the United States of America.

“ **Voting Bonds** ” means the Outstanding Bonds less the Issuer’s Bonds.

1.2 *Construction*

In this Bond Agreement, unless the context otherwise requires:

(a) headings are for ease of reference only;

(b) words denoting the singular number shall include the plural and vice versa;

(c) references to Clauses are references to the Clauses of this Bond Agreement;

(d) references to a time is a reference to Oslo time unless otherwise stated herein;

(e) references to a provision of law is a reference to that provision as it may be amended or re-enacted, and to any regulations made by the appropriate authority pursuant to such law, including any determinations, rulings, judgments and other binding decisions relating to such provision or regulation;

(f) references to “ **control** ” means the power to appoint a majority of the board of directors of the entity or to direct the management and policies of an entity, whether through the ownership of voting capital, by contract or otherwise; and

(h) references to a “ **person** ” shall include any individual, firm, partnership, joint venture, company, corporation, trust, fund, body corporate, unincorporated body of persons, or any state or any agency of a state or association (whether or not having separate legal personality).

2 The Bonds

2.1 Binding nature of the Bond Agreement

2.1.1 The Bondholders are, through their subscription, purchase or other transfer of Bonds bound by the terms of the Bond Agreement and other Finance Documents, and grant authority to the Bond Trustee to finalize and execute the Bond Agreement on the Bondholders behalf as set out in the subscription documents, term sheet, sales documents or in any other way, and all Bond transfers are subject to the terms of this Bond Agreement and all Bond transferees are, in taking transfer of Bonds, deemed to have accepted the terms of the Bond Agreement and the other Finance Documents and will automatically become parties to the Bond Agreement upon the completed transfer having been registered, without any further action required to be taken or formalities to be complied with, see also Clause 18.1.

2.1.2 The Bond Agreement is available to anyone and may be obtained from the Bond Trustee or the Issuer. The Issuer shall ensure that the Bond Agreement is available to the general public throughout the entire term of the Bonds.

2.2 *The Bonds*

2.2.1 The Issuer has resolved to issue a series of Bonds in the maximum amount of NOK 800,000,000 (Norwegian kroner eight hundred million).

The Bonds will be in denominations of NOK 1,000,000 each and rank pari passu between themselves.

The Bond Issue will be described as "FRN Teekay Offshore Partners L.P.
Senior Unsecured Bond Issue 2013/2018".

The International Securities Identification Number (ISIN) of the Bond Issue will be NO 001 0670128.

The tenor of the Bonds is from and including the Issue Date to the Maturity Date.

2.3 Purpose and utilization

2.3.1 The net proceeds of the Bonds shall be employed for general partnership purposes.

3 Listing

3.1 The Issuer shall apply for listing of the Bonds on Oslo Børs.

3.2 If the Bonds are listed, the Issuer shall ensure that the Bonds remain listed until they have been discharged in full.

4 Registration in a Securities Register

4.1 The Bond Issue and the Bonds shall prior to disbursement be registered in the Securities Register according to the Securities Register Act and the conditions of the Securities Register.

4.2 The Issuer shall promptly arrange for notification to the Securities Register of any changes in the terms and conditions of this Bond Agreement. The Bond Trustee shall receive a copy of the notification.

4.3 The Issuer is responsible for the implementation of correct registration in the Securities Register. The registration may be executed by an agent for the Issuer provided that the agent is qualified according to relevant regulations.

4.4 The Bonds have not been registered under the US Securities Act, and the Issuer is under no obligation to arrange for registration of the Bonds under the US Securities Act.

5 Purchase and transfer of Bonds

5.1 Subject to the restrictions set forth in this Clause 5, the Bonds are freely transferable and may be pledged.

5.2 Bondholders may be subject to purchase or transfer restrictions with regard to the Bonds, as applicable from time to time under local laws to which a Bondholder may be subject (due e.g. to its nationality, its residency, its registered address, its place(s) for doing business). Each bondholder must ensure compliance with local laws and regulations applicable at own cost and expense. Without limiting the generality of the foregoing:

Bondholders that are US Persons or located in the United States will not be permitted to transfer the Bonds except (a) subject to an effective registration statement under the US Securities Act, (b) to a person that the Bondholder reasonably believes is a QIB within the meaning of Rule 144A under the US Securities Act that is purchasing for its own account, or the account of another QIB, to whom notice is given that the resale, pledge or other transfer may be made in reliance on Rule 144A, (c) outside the United States in accordance with Regulation S under the US Securities Act in a transaction on the Oslo Børs, and (d) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 thereunder (if available). The Bonds may not be purchased by, or for the benefit of, persons resident in Canada.

5.3 Notwithstanding the above, a Bondholder which has purchased the Bonds in contradiction to mandatory restrictions applicable may nevertheless utilize its voting rights under this Bond Agreement.

6 Conditions Precedent

6.1 Disbursement of the net proceeds of the Bonds to the Issuer will be subject to the Bond Trustee having received the following documents, in form and substance satisfactory to it, at least two Business Days prior to the Issue Date:

(a) this Bond Agreement duly executed by all parties thereto;

(b) certified copies of all necessary corporate resolutions of the Issuer to issue the Bonds and execute the Finance Documents to which it is a party;

(c) a power of attorney from the Issuer to relevant individuals for its execution of the relevant Finance Documents, or extracts from the relevant register or similar documentation evidencing the individuals authorized to sign on behalf of the Issuer;

(d) certified copies of the Certificate of Formation for the Issuer, and the partnership agreement for the Issuer;

(e) the latest Financial Statements for the Issuer, and the Issuer's latest Quarterly Financial Report;

(f) confirmation that the requirements set forth in Chapter 7 of the Norwegian Securities Trading Act (implementing the EU prospectus directive (2003/71 EC) concerning prospectuses have been fulfilled or do not apply to the Bond Issue;

(g) to the extent necessary, any public authorisations required for the Bond Issue;

(h) confirmation from the Paying Agent that the Bonds have been registered in the Securities Register;

(i) written confirmation in accordance with Clause 7.3 (if required);

(j) the agreement set forth in Clause 14.2, duly executed;

(k) documentation on the granting of authority to the Bond Trustee as set out in Clause 2.1 and copies of any written documentation made public by the Issuer or the Manager in connection with the Bond Issue; and

(l) legal opinions in a form and content acceptable to the Bond Trustee from local counsel acceptable to the Bond Trustee, confirming inter alia (i) that the Issuer is legally organised and validly existing under its jurisdiction of organisation, (ii) the valid execution by the Issuer of the Finance Documents and the enforceability of the Finance Documents, (iii) that the Issuer has full partnership power and capacity to enter into and perform the duties under the Finance Documents, and (iv) that there are no other consents, approvals, authorisations or orders required by the Issuer from any governmental or other regulatory agencies in the jurisdictions of organisation of the Issuer in connection with the issue and offering of the Bonds and the performance by Issuer of its obligations under the Finance Documents.

6.2 The Bond Trustee may, in its reasonable opinion, waive the deadline or requirements for documentation as set forth in Clause 6.1.

6.3 Disbursement of the net proceeds from the Bonds is subject to the Bond Trustee's written notice to the Issuer, the Manager and the Paying Agent that the documents have been received and that the required conditions precedent are fulfilled or have been waived.

6.4 On the Issue Date, subject to receipt of confirmation from the Bond Trustee pursuant to Clause 6.3, the Manager shall make the net proceeds from the Bond Issue available to the Issuer.

7 Representations and Warranties

7.1 The Issuer represents and warrants to the Bond Trustee (on behalf of the Bondholders) that:

(a) *Status*

It is a limited partnership, duly organized and validly existing under the law of the jurisdiction in which it is incorporated, and has the power to own its assets and carry on its business as it is being conducted.

(b) *Power and authority*

It has the power to enter into and perform, and has taken all necessary partnership action to authorise its entry into, performance and delivery of this Bond Agreement and any other Finance Document to which it is a party and the transactions contemplated by those Finance Documents.

(c) *Valid, binding and enforceable obligations*

This Bond Agreement and any other Finance Document to which it is a party constitute (or will constitute, when executed by the respective parties thereto) legal, valid and binding obligations of the Issuer, enforceable in accordance with their terms, and (save as provided for therein) no further registration, filing, payment of Tax or fees or other formalities are necessary to render the said documents enforceable against the Issuer.

(d) *Non-conflict with other obligations*

The entry into and performance by the Issuer of the Bond Agreement and any other Finance Document to which it is a party and the transactions contemplated thereby do not and will not conflict with (i) any present law or regulation or present judicial or official order; (ii) its Certificate of Formation or partnership agreement; or (iii) any document or agreement which is binding on the Issuer or any of its assets.

(e) *No Event of Default*

No Default exists, and no other circumstances exist which constitute or (with the giving of notice, lapse of time, determination of materiality or the fulfillment of any other applicable condition, or any combination of the foregoing) would constitute a default under any document which is binding on the Issuer or any of its assets, and which would reasonably be expected to have a Material Adverse Effect.

(f) *Authorizations and consents*

All authorisations, consents, licenses or approvals of any governmental authorities required for the Issuer in connection with the execution, performance, validity or enforceability of this Bond Agreement or any other Finance Document, and the transactions contemplated thereby, have been obtained and are valid and in full force and effect. All material authorisations, consents, licenses or approvals of any governmental authorities required for the Issuer to carry on its business as presently conducted and as contemplated by this Bond Agreement, have been obtained and are in full force and effect.

(g) *Litigation*

No litigation, arbitration or administrative proceeding of or before any court, arbitral body or agency is pending or, to the best of the Issuer's knowledge, threatened which, if adversely determined, would reasonably be expected to have a Material Adverse Effect.

(h) *Financial Statements*

The most recently audited Financial Statements and the most recent unaudited Quarterly Financial Reports for the Issuer, fairly and accurately represent in all material respects the assets and liabilities and financial condition as at their respective dates, and have been prepared in accordance with GAAP, consistently applied from one year to another.

(i) *No undisclosed liabilities*

As of the date of the most recent balance sheet included in the Financial Statements and Quarterly Financial Report, the Issuer had no material liabilities, direct or indirect, actual or contingent, that are required by GAAP to be included in such balance sheet and that are not disclosed by or reserved against in the Financial Statements or in the notes thereto.

(j) *No Material Adverse Effect*

Since the date of the most recent Financial Statements and Quarterly Financial Report, there has been no change in the business, assets or financial condition of the Issuer that would reasonably be expected to have a Material Adverse Effect.

(k) *No misleading information*

All documents and information which have been provided by the Issuer or with the agreement of the Issuer to the subscribers or the Bond Trustee in connection with this Bond Issue represent the latest publicly available financial information concerning the Group, and there has been no change in the Group's financial position since the date of the latest Quarterly Financial Report of the Issuer which could reasonably be expected to have a Material Adverse Effect.

(l) *Environmental compliance*

The Issuer and each Group Company is in compliance with any relevant applicable environmental law or regulation and no circumstances have occurred which would prevent such compliance in a manner which, in each case, has had or would reasonably be expected to have a Material Adverse Effect.

(m) *Intellectual property*

The Group has valid and good title to (a) its material patents, trade marks, service marks, designs, business names, copyrights, design rights, inventions, confidential information and other intellectual property rights and interests (whether registered or unregistered), and (b) the benefit of all applications and rights to use such assets.

(n) *No withholdings*

The Issuer is not required to make any deduction or withholding for or on account of any Taxes levied by the United States, Canada or the Republic of the Marshall Islands, or any political subdivision thereof or Taxing or other authority therein, or any political subdivision or Taxing or other authority in any jurisdiction from or through which the Issuer effects any payments hereunder, from any payment which it may become obliged to make to the Bond Trustee (on behalf of the Bondholders) or the Bondholders under this Bond Agreement; provided, however, that, notwithstanding any provision in this Agreement to the contrary, the Issuer shall not be liable under this Agreement or have any obligation to indemnify any Bondholder for or with respect to any Taxes that are imposed due to any of the following:

(i) the Bondholder has some connection with the Taxing jurisdiction other than merely holding the Bonds or receiving principal or interest payments on the Bonds (such as citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the Taxing jurisdiction); and

(ii) any Tax imposed on, or measured by net income.

(o) Pari passu ranking

The Issuer's payment obligations under this Bond Agreement or any other Finance Document to which it is a party rank at least pari passu with the claims of its other unsecured and unsubordinated creditors, except for claims which are preferred by bankruptcy, insolvency, liquidation or other similar laws of general application and for other obligations that are mandatorily preferred by law applying to companies generally.

7.2 The representations and warranties set out in Clause 7.1 shall apply for the Issuer and are made on the execution date of this Bond Agreement, and shall be deemed to be repeated on the Issue Date.

7.3 The Bond Trustee may prior to disbursement require a written statement from the Issuer confirming compliance with Clause 7.1.

7.4 In the event of misrepresentation, the Issuer shall indemnify the Bond Trustee for any economic losses suffered, both prior to the disbursement of the Bonds, and during the term of the Bonds, as a result of its reliance on the representations and warranties provided by the Issuer herein.

8 Status of the Bonds and security

8.1 The Bonds shall be senior unsecured debt of the Issuer. The Bonds shall rank at least *pari passu* with all other senior unsecured obligations of the Issuer (save for such claims which are preferred by bankruptcy, insolvency, liquidation or other similar laws of general application and for other obligations that are mandatorily preferred by law) and shall rank ahead of subordinated debt.

8.2 The Bonds are unsecured.

9 Interest

9.1 The Issuer shall pay interest on the aggregate outstanding principal amount of the Bonds from, and including, the Issue Date at the Bond Reference Rate plus the Margin (together the " **Floating Rate** ").

9.2 Interest payments shall be made in arrears on the Interest Payment Dates each year; the first Interest Payment Date falls in April 2013.

9.3 The relevant interest payable amount shall be calculated based on a period from, and including, one Interest Payment Date to, but excluding, the next following applicable Interest Payment Date.

9.4 The day count fraction in respect of the calculation of the payable interest amount shall be "Actual/360", which refers to the actual number of days in the calculation period for which interest is payable divided by 360.

9.5 The applicable Floating Rate on the Bonds is set/reset on each Interest Payment Date by the Bond Trustee commencing on the Interest Payment Date at the beginning of the relevant calculation period.

When the interest rate is set for the first time and on subsequent interest rate resets, the next Interest Payment Date, the interest rate applicable up to the next Interest Payment Date and the actual number of calendar days up to that date shall be determined by the Bond Trustee and promptly notified to the Bondholders, the Issuer, the Paying Agent, and if the Bonds are listed, the Exchange.

9.6 The payable interest amount per Bond for a relevant calculation period shall be calculated as follows:

Interest Amount	=	Face Value	x	Floating Rate	x	Floating Rate Day Count Fraction

10 Maturity of the Bonds and Change of Control

10.1 *Maturity*

The Bonds shall mature in full on the Maturity Date, and shall be repaid at par (100%) by the Issuer.

10.2 Change of control

10.2.1 Upon the occurrence of a Change of Control Event each Bondholder shall have a right of pre-payment (a " **Put Option** ") of its Bonds at a price of 100 % of par plus accrued and unpaid interest.

10.2.2 The Put Option must be exercised within 60 days after the Issuer has given notification to the Bond Trustee and the Bondholders of a Change of Control Event.

Such notification shall be given as soon as possible after a Change of Control Event has taken place.

The Put Option may be exercised by the Bondholders by giving written, irrevocable notice of the request to its Account Manager. The Account Manager shall notify the Paying Agent of the pre-payment request. The settlement date of the Put Option shall be fifteen – 15 – Business Days following the date when the Paying Agent received the repayment request.

10.2.3 On the settlement date of the Put Option, the Issuer shall pay to each of the Bondholders holding Bonds to be pre-paid, the principal amount of each such Bond and any unpaid interest accrued up to (but not including) the settlement date.

11 Payments

11.1 Payment mechanics

11.1.1 The Issuer shall pay all amounts due to the Bondholders under the Bonds and this Bond Agreement by crediting the bank account nominated by each Bondholder in connection with its securities account in the Securities Register.

11.1.2 Payment shall be considered to have been made once the amount has been credited to the bank which holds the bank account nominated by the Bondholder in question, but if the paying bank and the receiving bank are the same, payment shall be considered to have been made once the amount has been credited to the bank account nominated by the Bondholder in question, see however Clause 11.2.

11.2 Currency

11.2.1 If the Bonds are denominated in currencies other than NOK, each Bondholder must provide the Paying Agent (either directly or through its Account Manager) with specific payment instructions, including foreign exchange bank account details. Depending on the currency exchange settlement agreements between the Bondholders' bank and the Paying Agent, cash settlement may be delayed, in which case no default interest or other penalty shall accrue for the benefit of the Bondholders.

11.2.2 Except as otherwise expressly provided, all amounts payable under this Bond Agreement and any other Finance Document shall be payable in the same currency as the Bonds are denominated in. If, however, the Bondholder has not given instruction as set out in Clause 11.2.1, within 5 Business Days prior to a Payment Date, the cash settlement will be exchanged into NOK and credited to the NOK bank account registered with the Bondholders account in the Securities Register.

11.2.3 Amounts payable in respect of costs, expenses, Taxes and other liabilities shall be payable in the currency in which they are incurred.

11.3 Set-off and counterclaims

11.3.1 The Issuer may apply or perform any counterclaims or set-off against any payment obligations pursuant to this Bond Agreement or any other Finance Document.

11.4 Interest in the event of late payment

11.4.1 In the event that payment of interest or principal is not made on the relevant Payment Date, the unpaid amount shall bear interest from the Payment Date at an interest rate equivalent to the interest rate according to Clause 9 plus 5.00 percentage points.

11.4.2 The interest charged under this Clause 11.4 shall be added to the defaulted amount on each respective Interest Payment Date relating thereto until the defaulted amount has been repaid in full.

11.4.3 The unpaid amounts shall bear interest as stated above until payment is made, whether or not the Bonds are declared to be in default pursuant to Clause 15.1 (a), cf. Clauses 15.2 - 15.4.

11.5 Irregular payments

11.5.1 In case of interest payments made on a date other than the regularly scheduled payment date, the Bond Trustee may instruct the Issuer or Bondholders of other payment mechanisms than described in Clause 11.1 or 11.2 above. The Bond Trustee may also obtain payment information regarding Bondholders' accounts from the Securities Register or Account Managers.

12 Issuer's acquisition of Bonds

12.1 The Issuer has the right to acquire and own Bonds (Issuer's Bonds). The Issuer's Bonds may at the Issuer's discretion be retained by the Issuer, sold or discharged.

13 Covenants

13.1 General

13.1.1 The Issuer has undertaken the covenants in this Clause 13 to the Bond Trustee (on behalf of the Bondholders), as further stated below.

13.1.2 Subject to Section 18.2, the covenants in this Clause 13 shall remain in force from the date of this Bond Agreement and until such time that no amounts are outstanding under this Bond Agreement and any other Finance Document, unless the Bond Trustee (or Bondholders by action at a Bondholders Meeting, as the case may be), has agreed in writing to waive any covenant, and then only to the extent of such waiver, and on the terms and conditions set forth in such waiver.

13.2 Information Covenants

13.2.1 The Issuer shall

(a) without being requested to do so, immediately inform the Bond Trustee of any Default or Event of Default as well as of any circumstances which the Issuer understands would reasonably be expected to lead to an Event of Default;

(b) without being requested to do so, inform the Bond Trustee of any other event which could reasonably be expected to have a Material Adverse Effect;

(c) without being requested to do so, inform the Bond Trustee if the Issuer intends to sell or dispose of all or a substantial part of its assets or operations, or change the nature of its business;

(d) without being requested to do so, produce Financial Statements annually and Quarterly Financial Reports quarterly and make them available on its website in the English language as soon as they become available, and not later than 120 days after the end of the financial year and 60 days after the end of the relevant quarter, in each case subject to any exemption, waiver or extension granted by the Exchange or as permitted by any amendment to the Exchange listing rules;

(e) at the request of the Bond Trustee, report the balance of the Issuer’s Bonds;

(f) without being requested to do so, send a copy to the Bond Trustee of its notices to the Exchange (if listed) which are of relevance for the Issuer’s liabilities pursuant to this Bond Agreement;

(g) without being requested to do so, inform the Bond Trustee of changes in the registration of the Bonds in the Securities Register; and

(h) within a reasonable time, provide such information about the Issuer’s financial condition as the Bond Trustee may reasonably request.

13.2.2 The Issuer shall at the request of the Bond Trustee provide the documents and information necessary to maintain the listing and quotation of the Bonds on the Exchange (if listed) and to otherwise enable the Bond Trustee to carry out its rights and duties pursuant to this Bond Agreement and the other Finance Documents, as well as applicable laws and regulations.

13.2.3 The Issuer shall in connection with the issue of its Financial Statements and Quarterly Reports under Clause 13.2.1. (d), confirm to the Bond Trustee in writing the Issuer’s compliance with the covenants in Clause 13. Such confirmation shall be undertaken in a compliance certificate, substantially in the format set out in Attachment 1 hereto, signed by the Chief Executive Officer or Chief Financial Officer of the Issuer. In the event of non-compliance, the compliance certificate shall describe the non-compliance, the reasons therefore as well as the steps which the Issuer has taken and will take in order to rectify the non-compliance.

13.3 General Covenants

(a) Pari passu ranking

The Issuer's obligations under this Bond Agreement and any other Finance Document shall at all times rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors save for those whose claims that are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application and for other obligations that are mandatorily preferred by law applying to companies generally.

(b) Mergers

The Issuer shall not, and shall ensure that no Group Company shall, carry out any merger or other business combination or corporate reorganization involving consolidating the assets and obligations of any of the Group Companies with any other companies or entities not being a member of the Group if such transaction would have a Material Adverse Effect. The Issuer shall notify the Bond Trustee of any such transaction, providing relevant details thereof, as well as, if applicable, its reasons for believing that the proposed transaction would not have a Material Adverse Effect.

(c) De-mergers

The Issuer shall not, and shall ensure that no Group Company shall, carry out any de-merger or other corporate reorganization involving splitting any Group Company into two or more separate companies or entities, if such transaction would have a Material Adverse Effect. The Issuer shall notify the Bond Trustee of any such transaction, providing relevant details thereof, as well as, if applicable, its reasons for believing that the proposed transaction would not have a Material Adverse Effect.

(d) Continuation of business

(i) The Issuer shall not cease to carry on the general nature or scope of its business. The Issuer shall ensure that no Group Company shall cease to carry on the general nature or scope of its business, if such cessation would have a Material Adverse Effect.

(ii) The Issuer shall procure that no material change is made to the general nature or scope of the business of the Group from that carried on at the date of this Bond Agreement, or as contemplated by this Bond Agreement.

(e) Disposal of business

The Issuer shall not, and shall ensure that no Group Companies shall, be entitled to sell or otherwise dispose of all or a substantial part of the Group's aggregate assets or operations, unless

(i) the transaction is carried out at fair market value, on terms and conditions customary for such transactions; and

(ii) such transaction would not have a Material Adverse Effect.

13.4 Corporate and operational matters

(a) Related party transactions

The Issuer shall not engage in, or permit any member of the Group to engage in, directly or indirectly, any transaction with any affiliate of Teekay Corporation that is not a Group Company (without limitation, the purchase, sale or exchange of assets or the rendering of any service), except (i) pursuant to existing agreements and arrangements with such affiliates or (ii) transactions that are (A) approved by a majority of the members of the conflicts committee of the board of directors of the GP, (B) on terms no less favorable to the Issuer or such Group member than those generally being provided to or available from unrelated third parties, (C) fair and reasonable to the Issuer or such Group member, taking into account the totality of the relationships between the Group and the other parties involved (including other transactions that may be particularly favorable or advantageous to the Group) or (D) immaterial in amount or significance to the Issuer or the Group.

(b) Corporate status

The Issuer shall not, and shall ensure that no Group Company changes its type of organization or jurisdiction of organization unless such change in type or jurisdiction of organization would not have a Material Adverse Effect. Notwithstanding the foregoing, no change shall be made to the Issuer's type of organization or jurisdiction of organization or incorporation without prior delivery to the Bond Trustee of legal opinions in a form and content acceptable to the Bond Trustee from local counsel acceptable to the Bond Trustee, confirming inter alia (i) that the Issuer is legally organized or incorporated (as applicable) and validly existing under their new jurisdictions of organization or incorporation, (ii) the execution by the Issuer of the Finance Documents and the enforceability of the Finance Documents will remain valid and enforceable under the new jurisdiction of organization or incorporation, (iii) that the Issuer has full partnership or corporate power and capacity to enter into and perform the duties under the Finance Documents under its new jurisdiction of organization or incorporation, and (iv) that there are no other consents, approvals, authorisations or orders that have not been obtained and are required by the Issuer with respect to such change of its type of organization or jurisdiction of organization from any governmental or other regulatory agencies in the jurisdictions of organization or incorporation of the Issuer in connection with the Bonds and the performance by the Issuer of its obligations under the Finance Documents.

(c) Compliance with laws

The Issuer shall (and shall ensure that all Group Companies shall) comply in all material respects with all laws and regulations it or they may be subject to from time to time (including any environmental laws and regulations).

(d) Litigations

The Issuer shall, promptly upon becoming aware of them, send the Bond Trustee such relevant details of any:

(i) material litigations, arbitrations or administrative proceedings which have been started by or against any Group Company; and

(ii) other events which have occurred which have had or would reasonably be expected to have a Material Adverse Effect, as the Bond Trustee may reasonably request.

13.5 Financial Covenants and listing

(a) Free Liquidity

The Issuer shall, at any time during the term of the Bonds, ensure that the Group on a consolidated basis maintains the following financial covenants:

(i) aggregate Free Liquidity and undrawn committed revolving credit lines available to the Group (but excluding committed revolving credit lines with less than six months to maturity) of a minimum of USD 75,000,000; and

(ii) the aggregate of such Free Liquidity and undrawn committed revolving credit lines shall not be less than 5% of Total Debt.

(b) Listing of Issuer's common units

The Issuer shall ensure that the Issuer's common units remain listed on the New York Stock Exchange or another recognized stock exchange.

14 Fees and expenses

14.1 The Issuer shall cover all its own expenses in connection with this Bond Agreement and fulfillment of its obligations under this Bond Agreement, including preparation of this Bond Agreement, preparation of the Finance Documents and any registration or notifications relating thereto, listing of the Bonds on the Exchange (if applicable), and the registration and administration of the Bonds in the Securities Register.

14.2 The expenses and fees payable to the Bond Trustee shall be paid by the Issuer and are set forth in a separate agreement between the Issuer and the Bond Trustee. Fees and expenses payable to the Bond Trustee which, due to the Issuer's insolvency or similar, are not reimbursed in any other way may be covered by making an equivalent reduction in the payments to the Bondholders.

14.3 The Issuer shall cover all public fees in connection with the Bonds and the Finance Documents; provided, however, that any public fees levied on the trade of Bonds in the secondary market shall be paid by the Bondholders, unless otherwise provided by law or regulation, and the Issuer is not responsible for reimbursing any such fees.

14.4 In addition to the fee due to the Bond Trustee pursuant to Clause 14.2 and normal expenses pursuant to Clauses 14.1 and 14.3, the Issuer shall, on demand, cover extraordinary expenses incurred by the Bond Trustee in connection with the Bonds, as determined in a separate agreement between the Issuer and the Bond Trustee.

14.5 The Issuer is responsible for withholding any withholding tax imposed by applicable law on any payments to the Bondholders.

15 Events of Default

15.1 Subject to Clause 15.2 or 15.3, the Bonds may be declared by the Bond Trustee to be in default upon occurrence of any of the following events (which shall be referred to as an " **Event of Default** ") if:

(a) Non-payment

The Issuer fails to fulfill any payment obligation under this Bond Agreement or any Finance Document when due, unless, in the opinion of the Bond Trustee, it is obvious that such failure will be remedied, and payment in full of any such late payment is made, within 5 – five – Business Days following the original due date.

(b) Breach of other obligations

The Issuer or any other Group Company fails to duly perform any other covenant or obligation pursuant to this Bond Agreement or any of the Finance Documents, and such failure is not remedied within 10 – ten – Business Days after notice thereof is given to the Issuer by the Bond Trustee.

(c) Cross default

The aggregate amount of Financial Indebtedness or committed Financial Indebtedness of the Group or any Group Company falling within paragraphs (i) to (iv) below exceeds a total of USD 50 million, or the equivalent thereof in other currencies;

(i) any Financial Indebtedness is not paid when due and after giving effect to any applicable grace period,

(ii) any Financial Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described),

(iii) any commitment for any Financial Indebtedness is cancelled or suspended by a creditor as a result of an event of default (however described) and such cancellation and suspension would have a Material Adverse Effect, or

(iv) any creditor becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity as a result of an event of default (however described).

(d) Misrepresentations

Any representation, warranty or statement (including statements in compliance certificates) made under this Bond Agreement or in connection therewith, taken as a whole with all other such representations, warranties and statements, is or proves to have been incorrect, inaccurate or misleading in any material respect when made or deemed to have been made.

(e) Insolvency

The following occurs in respect of the Issuer or Material Subsidiary:

(i) general suspension of payments, or a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) under any law relating to bankruptcy, insolvency or reorganization or relief of debtors,

(ii) a composition, compromise, assignment or arrangement with any creditor which has a material adverse effect on the Issuer's ability to perform its payment obligations under this Bond Agreement, or

(iii) the appointment of a liquidator (other than in respect of a solvent liquidation), receiver, administrative receiver, administrator, compulsory manager or other similar officer of any substantial part of its assets.

(f) *Creditors' process*

The Issuer or any Material Subsidiary has a substantial portion of its assets impounded, confiscated, attached or subject to distraint, or is subject to enforcement of any security over any substantial portion of its assets.

(g) *Dissolution, appointment of liquidator or analogous proceedings*

The Issuer or any Material Subsidiary is resolved to be dissolved or a liquidator, administrator or the like is appointed or requested to be appointed under any law relating to bankruptcy, insolvency or reorganization or relief of debtors.

(h) *Impossibility or illegality*

It is or becomes impossible or unlawful for any Group Company or the Issuer to fulfill or perform any of the material terms of the Finance Documents to which it is a party.

(i) *Litigation*

Any claim, litigation, arbitration or administrative proceedings against any Group Company or the Issuer is adversely determined against the Group Company or the Issuer and has (or, in the reasonable opinion of the Bond Trustee, after consultations with the Issuer, would reasonably be expected to have) a Material Adverse Effect.

(j) *Material adverse effect*

Any event or series of events occurs which, in the reasonable opinion of the Bond Trustee, after consultations with the Issuer, has a Material Adverse Effect.

15.2 In the event that one or more of the circumstances mentioned in Clause 15.1 occurs and is continuing, the Bond Trustee can, in order to protect the interests of the Bondholders, declare the Outstanding Bonds including accrued interest and expenses to be in default and due for immediate payment.

The Bond Trustee may at its discretion, on behalf of the Bondholders, take every measure necessary to recover the amounts due under the Outstanding Bonds, and all other amounts outstanding under the Bond Agreement and any other Finance Document.

15.3 In the event that one or more of the circumstances mentioned in Clause 15.1 occurs and is continuing, the Bond Trustee shall declare the Outstanding Bonds including accrued interest and expenses to be in default and due for payment if:

(a) the Bond Trustee receives a demand in writing with respect to the above from Bondholders representing at least 1/5 of the aggregate principal amount of Voting Bonds, and the Bondholders' Meeting has not decided on other solutions, or

(b) the Bondholders pursuant to action at a Bondholders' Meeting have decided to declare the Outstanding Bonds in default and due for payment.

In either case the Bond Trustee shall on behalf of the Bondholders take every measure necessary to recover the amounts due under the Outstanding Bonds. The Bond Trustee can request satisfactory security for any possible liability and anticipated expenses, from those Bondholders who requested that the declaration of default be made pursuant to sub clause (a) above and/or those who voted in favour of the decision pursuant to sub clause (b) above.

15.4 In the event that the Bond Trustee pursuant to the terms of Clauses 15.2 or 15.3 declares the Outstanding Bonds to be in default and due for payment, the Bond Trustee shall immediately deliver to the Issuer a notice demanding payment of interest and principal due to the Bondholders under the Outstanding Bonds including accrued interest and interest on overdue amounts and expenses.

16 Bondholders’ meeting

16.1 Authority of the Bondholders’ meeting

16.1.1 The Bondholders’ Meeting represents the supreme authority of the Bondholders community in all matters relating to the Bonds. If a resolution by or an approval of the Bondholders is required, resolution of such shall be passed at a Bondholders’ Meeting. Resolutions passed at Bondholders’ Meetings shall be binding upon and prevail for all the Bonds and Bondholders.

16.2 Procedural rules for Bondholders’ meetings

16.2.1 A Bondholders’ Meeting shall be held at the request of:

(a) the Issuer,

(b) Bondholders representing at least 1/10 of the aggregate principal amount of Voting Bonds,

(c) the Exchange, if the Bonds are listed, or

(d) the Bond Trustee.

16.2.2 The Bondholders’ Meeting shall be summoned by the Bond Trustee. A request for a Bondholders’ Meeting shall be made in writing to the Bond Trustee, and shall clearly state the matters to be discussed.

16.2.3 If the Bond Trustee has not summoned a Bondholders’ Meeting within 10 – ten – Business Days after having received such a request, then the requesting party may summons the Bondholders’ Meeting itself.

16.2.4 Summons to a Bondholders Meeting shall be dispatched no later than 10 – ten – Business Days prior to the Bondholders’ Meeting. The summons and a confirmation of each Bondholder’s holdings of Bonds shall be sent to all Bondholders registered in the Securities Register at the time of distribution, with a copy to the Issuer. The summons shall also be sent to the Exchange for publication.

16.2.5 The summons shall specify the agenda of the Bondholders’ Meeting. The Bond Trustee may in the summons also set forth other matters on the agenda than those requested. If amendments to this Bond Agreement have been proposed, the main content of the proposal shall be stated in the summons.

16.2.6 The Bond Trustee may restrict the Issuer from making any changes of Voting Bonds in the period from distribution of the summons until the Bondholders' Meeting, by serving notice to it to such effect.

16.2.7 Matters that have not been reported to the Bondholders in accordance with the procedural rules for summoning of a Bondholders' Meeting may only be adopted with the approval of all Voting Bonds.

16.2.8 The Bondholders' Meeting shall be held on premises designated by the Bond Trustee. The Bondholders' Meeting shall be opened and shall, unless otherwise decided by the Bondholders' Meeting, be chaired by the Bond Trustee. If the Bond Trustee is not present, the Bondholders' Meeting shall be opened by a Bondholder, and be chaired by a representative elected by the Bondholders' Meeting.

16.2.9 Minutes of the Bondholders' Meeting shall be kept. The minutes shall state the numbers of Bondholders represented at the Bondholders' Meeting, the resolutions passed at the meeting, and the result of the voting. The minutes shall be signed by the chairman and at least one other person elected by the Bondholders' Meeting. The minutes shall be deposited with the Bond Trustee and shall be available to the Bondholders.

16.2.10 The Bondholders, the Bond Trustee and – provided the Bonds are listed - representatives of the Exchange, have the right to attend the Bondholders' Meeting. The chairman may grant access to the meeting to other parties, unless the Bondholders' Meeting decides otherwise. Bondholders may attend by a representative holding proxy. Bondholders have the right to be assisted by an advisor. In case of dispute the chairman shall decide who may attend the Bondholders' Meeting and vote the Bonds.

16.2.11 Representatives of the Issuer have the right to attend the Bondholders' Meeting. The Bondholders' Meeting may resolve that the Issuer's representatives may not participate in particular matters. The Issuer has the right to be present during the voting.

16.3 Resolutions passed at Bondholders' meetings

16.3.1 At the Bondholders' Meeting each Bondholder may cast one vote for each Voting Bond owned at close of business on the day prior to the date of the Bondholders' Meeting in accordance with the records registered in the Securities Register. Whoever opens the Bondholders' Meeting shall adjudicate any question concerning which Bonds shall count as the Issuer's Bonds. The Issuer's Bonds shall not have any voting rights.

16.3.2 In all matters, the Issuer, the Bond Trustee and any Bondholder have the right to demand vote by ballot. In case of parity of votes, the chairman shall have the deciding vote, regardless of the chairman being a Bondholder or not.

16.3.3 In order to form a quorum, at least half (1/2) of the aggregate principal amount of the Voting Bonds must be represented at the meeting, see however Clause 16.4. Even if less than half (1/2) of the aggregate principal amount of the Voting Bonds are represented, the Bondholders' Meeting shall be held and voting completed.

16.3.4 If a quorum exists, resolutions shall be passed by simple majority of the Voting Bonds represented at the Bondholders' Meeting, unless otherwise set forth in Clause 16.3.5.

16.3.5 In the following matters, approval by the holders of at least 2/3 of the aggregate principal amount of the Voting Bonds represented at the Bondholders' Meeting is required:

(a) amendment of the terms of this Bond Agreement regarding the interest rate, the tenor, redemption price and other terms and conditions directly affecting the cash flow of the Bonds;

(b) transfer of rights and obligations of this Bond Agreement to another issuer (Issuer), or

(c) change of Bond Trustee.

16.3.6 The Bondholders' Meeting may not adopt resolutions which may give certain Bondholders or others an unreasonable advantage at the expense of other Bondholders.

16.3.7 The Bond Trustee shall ensure that resolutions passed at the Bondholders' Meeting are properly implemented.

16.3.8 The Issuer, the Bondholders and the Exchange shall be notified of resolutions passed at the Bondholders' Meeting.

16.4 Repeated Bondholders' meeting

16.4.1. If the Bondholders' Meeting does not form a quorum pursuant to Clause 16.3.3, a repeated Bondholders' Meeting may be summoned to vote on the same matters. The attendance and the voting result of the first Bondholders' Meeting shall be specified in the summons for the repeated Bondholders' Meeting.

16.4.2 When a matter is tabled for discussion at a repeated Bondholders' Meeting, a valid resolution may be passed even though less than half (1/2) of the aggregate principal amount of the Voting Bonds are represented.

17 The Bond Trustee

17.1 The role and authority of the Bond Trustee

17.1.1 The Bond Trustee shall monitor the compliance by the Issuer of its obligations under this Bond Agreement and applicable laws and regulations which are relevant to the terms of this Bond Agreement, including supervision of timely and correct payment of principal or interest, inform the Bondholders, the Paying Agent and the Exchange of relevant information which is obtained and received in its capacity as Bond

Trustee (however, this shall not restrict the Bond Trustee from discussing matters of confidentiality with the Issuer), arrange Bondholders' Meetings, and make the decisions and implement the measures resolved pursuant to this Bond Agreement. The Bond Trustee is not obligated to assess the Issuer's financial situation beyond what is directly set forth in this Bond Agreement.

17.1.2 The Bond Trustee may take any step necessary to ensure the rights of the Bondholders in all matters pursuant to the terms of this Bond Agreement. The Bond Trustee may postpone taking action until such matter has been put forward to the Bondholders' Meeting.

17.1.3 Except as provided for in Clause 17.1.5 the Bond Trustee may reach decisions binding for all Bondholders concerning this Bond Agreement, including amendments to the Bond Agreement and waivers or modifications of certain provisions, which in the opinion of the Bond Trustee, do not have a Material Adverse Effect on the rights or interests of the Bondholders pursuant to this Bond Agreement.

17.1.4 Except as provided for in Clause 17.1.5, the Bond Trustee may reach decisions binding for all Bondholders in circumstances other than those mentioned in Clause 17.1.3 provided prior notification has been made to the Bondholders. Such notice shall contain a proposal of the amendment and the Bond Trustee's evaluation. Further, such notification shall state that the Bond Trustee may not reach a decision binding for all Bondholders in the event that any Bondholder submits a written protest against the proposal within a deadline set by the Bond Trustee. Such deadline may not be less than five (5) Business Days following the dispatch of such notification.

17.1.5 The Bond Trustee may not reach decisions pursuant to Clauses 17.1.3 or 17.1.4 for matters set forth in Clause 16.3.5 except to rectify obvious incorrectness, vagueness or incompleteness.

17.1.6 The Bond Trustee may not adopt resolutions which may give certain Bondholders or others an unreasonable advantage at the expense of other Bondholders.

17.1.7 The Issuer, the Bondholders and the Exchange shall be notified of decisions made by the Bond Trustee pursuant to Clause 17.1 unless such notice obviously is unnecessary.

17.1.8 The Bondholders through action at a Bondholders' Meeting may replace the Bond Trustee without the Issuer's approval, as provided for in Clause 16.3.5.

17.2 Liability and indemnity

17.2.1 The Bond Trustee is liable only for direct losses incurred by Bondholders or the Issuer as a result of negligence or willful misconduct by the Bond Trustee in performing its functions and duties as set forth in this Bond Agreement. The Bond Trustee is not liable for the content of information provided to the Bondholders on behalf of the Issuer.

17.2.2 The Issuer is liable for, and shall indemnify the Bond Trustee fully in respect of, all losses, expenses and liabilities incurred by the Bond Trustee as a result of negligence by the Issuer (including its directors, management, officers, employees, agents and representatives) to fulfill its obligations under the terms of this Bond Agreement and any other Finance Documents, including losses incurred by the Bond Trustee as a result of the Bond Trustee's actions based on misrepresentations made by the Issuer in connection with the establishment and performance of this Bond Agreement and the other Finance Documents.

17.3 Change of Bond Trustee

17.3.1 Change of Bond Trustee shall be carried out pursuant to the procedures set forth in Clause 16. The Bond Trustee shall continue to carry out its duties as bond trustee until such time that a new Bond Trustee is elected.

17.3.2 The fees and expenses of a new bond trustee shall be covered by the Issuer pursuant to the terms set out in Clause 14, but may be recovered wholly or partially from the Bond Trustee if the change is due to a breach of the Bond Trustee duties pursuant to the terms of this Bond Agreement or other circumstances for which the Bond Trustee is liable.

17.3.3 The Bond Trustee undertakes to co-operate so that the new bond trustee receives without undue delay following the Bondholders' Meeting the documentation and information necessary to perform the functions as set forth under the terms of this Bond Agreement.

18 Miscellaneous

18.1 The community of Bondholders

18.1 By virtue of holding Bonds, which are governed by this Bond Agreement (which pursuant to Clause 2.1.1 is binding upon all Bondholders), a community exists between the Bondholders, implying, inter alia, that

(a) the Bondholders are bound by the terms of this Bond Agreement,

(b) the Bond Trustee has power and authority to act on behalf of the Bondholders,

(c) the Bond Trustee has, in order to administer the terms of this Bond Agreement, access to the Securities Register to review ownership of Bonds registered in the Securities Register,

(d) this Bond Agreement establishes a community between Bondholders meaning that;

(i) the Bonds rank pari passu between each other,

(ii) the Bondholders may not, based on this Bond Agreement, act directly towards the Issuer and may not themselves institute legal proceedings against the Issuer, provided, however that this provision shall not restrict the Bondholders from exercising any of their individual rights derived from the Bond Agreement.

(iii) the Issuer may not, based on this Bond Agreement, act directly towards the Bondholders,

(iv) the Bondholders may not cancel the Bondholders' community, and

(v) an individual Bondholder may not resign from the Bondholders' community.

18.2 Defeasance

18.2.1 The Issuer may, at its option and at any time, elect to have certain obligations discharged (see Clause 18.2.2) upon complying with the following conditions (" **Covenant Defeasance** ");

(a) the Issuer shall have irrevocably pledged to the Bond Trustee for the benefit of the Bondholders cash or government obligations acceptable by the Bond Trustee (the " **Defeasance Pledge** ") in such amounts as will be sufficient for the payment of principal and interest on the Outstanding Bonds to Maturity Date;

(b) the Issuer shall, if required by the Bond Trustee, provide a legal opinion reasonably acceptable to the Bond Trustee to the effect that the Bondholders will not recognize income, gain or loss for income tax purposes (under US federal or Norwegian tax law, if applicable) as a result of the Defeasance Pledge and Covenant Defeasance, and will be subject to such income tax on the same amount and in the same manner and at the same times as would have been the case if the Defeasance Pledge had not occurred;

(c) no Event of Default shall have occurred and be continuing on the date of establishment of the Defeasance Pledge, or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 181st day after the date of establishment of the Defeasance Pledge;

(d) neither the Defeasance Pledge nor the Covenant Defeasance results in a breach or violation of any material agreement or instrument binding upon the Issuer, or the certificate of association or partnership agreement governing the Issuer;

(e) the Issuer shall have delivered to the Bond Trustee a certificate signed by the Chief Financial Officer of the GP that the Defeasance Pledge was not made by the Issuer with the intent of preferring the Bondholders over any other creditors of the Issuer or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuer or others;

(f) the Issuer shall have delivered to the Bond Trustee any certificate or legal opinion reasonably required regarding the Covenant Defeasance or Defeasance Pledge (including certificate from the Chief Financial Officer of the GP and a legal opinion from its legal counsel to the effect that all conditions for Covenant Defeasance have been complied with; and that (i) the Defeasance Pledge will not be subject to any rights of creditors of the Issuer, (ii) the Defeasance Pledge will constitute a valid, perfected and enforceable security interest in favour of the Bond Trustee for the benefit of the Bondholders, and (iii) after the 181st day following the establishment of the Defeasance Pledge, the funds and assets so pledged will not be subject to the effects of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors rights generally under the laws of the jurisdiction where the Defeasance Pledge was established and the corporate domicile of the Issuer.

18.2.2 Upon the exercise by the Issuer of its option under Clause 18.2.1;

(a) the Issuer shall be released from their obligations under all provisions in Clause 13, except 13.2.1 (a), (g) and (h).

(b) the Issuer shall not (and shall ensure that all Group Companies shall not) take any actions that may cause the value of the security interest created by this Covenant Defeasance to be reduced, and shall at the request of the Bond Trustee execute, or cause to be executed, such further documentation and perform such other acts as the Bond Trustee may reasonably require in order for the security interests to remain valid, enforceable and perfected by the Bond Trustee for the account of the Bondholders;

(c) any guarantor of the Issuer's obligations under the Bonds shall be discharged from their obligations under the related guarantee, and the guarantee(s) shall cease to have any legal effect;

(d) all other provisions of the Bond Agreement (except to the extend indicated in clauses (a) – (c) above) shall remain fully in force without any modifications.

18.2.3 All moneys covered by the Defeasance Pledge shall be applied by the Bond Trustee, in accordance with the provisions of this Bond Agreement, to the payment to the Bondholders of all sums due to them under this Bond Agreement on the due date thereof.

Any excess funds not required for the payment of principal, premium and interest to the Bondholders (including any expenses and fees due to the Bond Trustee hereunder) shall be returned to the Issuer.

18.3 Limitation of claims

18.3.1 All claims under the Bonds and this Bond Agreement for payment, including interest and principal, shall be subject to the time-bar provisions of the Norwegian Limitation Act of May 18, 1979 No. 18.

18.4 Access to information

18.4.1 The Bond Agreement is available to anyone and copies may be obtained from the Bond Trustee or the Issuer. The Issuer shall ensure that the Bond Agreement is available in copy form to the general public until all the Bonds have been fully discharged.

18.4.2 The Bond Trustee shall, in order to carry out its functions and obligations under the Bond Agreement, have access to the Securities Register for the purposes of reviewing ownership of the Bonds registered in the Securities Register.

18.5 Amendments

18.5.1 All amendments of this Bond Agreement shall be made in writing, and shall unless otherwise provided for by this Bond Agreement, only be made with the approval of all parties hereto.

18.6 Notices, contact information

18.6.1 Written notices, warnings, summons and other communications to the Bondholders made by the Bond Trustee shall be sent via the Securities Register with a copy to the Issuer and the Exchange. Information to the Bondholders may, in lieu of the requirement in the immediately preceding sentence, be published at the web site www.stamdata.no.

18.6.2 The Issuer's written notifications to the Bondholders shall be sent via the Bond Trustee, or alternatively through the Securities Register with a copy to the Bond Trustee and the Exchange.

18.6.3 Unless otherwise specifically provided, all notices or other communications under or in connection with this Bond Agreement between the Bond Trustee and the Issuer shall be given or made in writing, by letter, or facsimile. Any such notice or communication shall be deemed to be given or made as follows:

(a) if by letter, when delivered at the address of the relevant Party;

(b) if by facsimile, when received.

However, a notice given in accordance with the above but received on a day which is not a business day in the place of receipt, or after 5:00 p.m. on such a business day, shall only be deemed to be given at 9:00 a.m. on the next business day in that place.

18.6.4 The Issuer and the Bond Trustee shall ensure that the other party is kept informed of changes in postal address, e-mail address, telephone and fax numbers and contact persons.

18.7 Dispute resolution and legal venue

18.7 This Bond Agreement and all disputes arising out of, or in connection with this Bond Agreement between the Bond Trustee, the Bondholders and the Issuer, shall be governed by Norwegian law.

All disputes arising out of, or in connection with this Bond Agreement between the Bond Trustee, the Bondholders and the Issuer, shall be exclusively resolved by the courts of Norway, with the District Court of Oslo as sole legal venue.

18.8 Service of process

18.8.1 Without prejudice to any other mode of service, the Issuer:

(a) irrevocably appoints Teekay Shipping Norway AS (a limited liability company incorporated in Norway with Company No. 964 111 723) as its agent for service of process relating to any proceedings before the Norwegian courts in connection with any Finance Document;

(b) agrees that failure by the process agent to notify it of the process will not invalidate the proceedings concerned; and

(c) consents to the service of process relating to any such proceedings before the Norwegian courts by prepaid posting of a copy of the process to its address stated in this Bond Agreement.

*****

This Bond Agreement has been executed in two originals, of which the Issuer and the Bond Trustee retain one each.

The Issuer: **TEEKAY OFFSHORE PARTNERS L.P.**	**The Bond Trustee:** **NORSK TILLITSMANN ASA**
By: Teekay Offshore GP L.L.C., its general partner	
By:	By:
Position:	Position:

Attachment 1

COMPLIANCE CERTIFICATE

Norsk Tillitsmann ASA
P.O. Box 1470 Vika
N-0116 Oslo
Norway

Fax: + 47 22 87 94 10
E-mail: mail@trustee.no

[date]

Dear Sirs,

TEEKAY OFFSHORE PARTNERS L.P. BOND AGREEMENT 2013/2018 - ISIN 001 0670128

We refer to the Bond Agreement for the above mentioned Bond Issue made between Norsk Tillitsmann ASA as Bond Trustee on behalf of the Bondholders, and the undersigned as Issuer under which a Compliance Certificate shall be issued. This letter constitutes the Compliance Certificate for the period [PERIOD].

Capitalised words and expressions are used herein as defined in the Bond Agreement.

With reference to Clause 13.2.3 we hereby certify that:

1. all information contained herein is true and accurate and there has been no change which would reasonably be expected to have a material adverse effect on the financial condition of the Issuer since the date of the last accounts or the last Compliance Certificate submitted to you.
2. the covenants set out in Clause 13 are satisfied in all material respects;
3. in accordance with Clause 13.5(a)(i), the Free Liquidity and undrawn committed revolving credit lines available to the Group (but excluding committed revolving credit lines with less than six months to maturity) is [ ]
4. in accordance with Clause 13.5(a)(ii), the percentage of Free Liquidity and undrawn committed revolving credit lines to Total Debt is [ ]

Copies of our latest consolidated [annual audited/quarterly unaudited] accounts are enclosed.

Yours faithfully,

Teekay Offshore Partners L.P.

By: Teekay Offshore GP L.L.C., its general partner

____

Name of authorized person

Enclosure: [*copy of any written documentation*]

Exhibit 4.11

EXECUTION VERSION

DATED 17 February 2012

PIRANEMA L.L.C.
(as Borrower)

- and -

DNB BANK ASA
NORDEA BANK FINLAND PLC, NEW YORK BRANCH
and others
(as Lenders)

- and -

DNB BANK ASA
(as Agent)

- and -

DNB BANK ASA
(as Security Agent)

- and -

DNB BANK ASA
NORDEA BANK FINLAND PLC, NEW YORK BRANCH
and others
(as Mandated Lead Arrangers)

- and -

CREDIT SUISSE AG
ROYAL BANK OF CANADA
SKANDINAVISKA ENSKILDA BANKEN AB
(as Lead Arrangers)

- and -

DNB MARKETS, INC.
NORDEA BANK FINLAND PLC, NEW YORK BRANCH
(as Bookrunners)

- and -

NORDEA BANK FINLAND PLC, NEW YORK BRANCH
and others
(as Swap Providers)

US$130,000,000 SECURED
CREDIT FACILITY

STEPHENSON HARWOOD

CONTENTS

LOAN AGREEMENT

Dated: 17 February 2012

BETWEEN:

(1) **PIRANEMA L.L.C.** , a limited liability company formed in the Marshall Islands whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, MH 96960, Marshall Islands (the “ **Borrower** ”);

(2) the banks listed in Schedule 1, Part I each acting through its office at the address indicated against its name in Schedule 1, Part I (together the “ **Lenders** ” and each a “ **Lender** ”);

(3) **DNB BANK ASA** acting as agent (in that capacity the “ **Agent** ”);

(4) the banks listed in Schedule 1, Part III acting as mandated lead arrangers (in that capacity the “ **MLAs** ”);

(5) the banks listed in Schedule 1, Part V acting as lead arrangers (in that capacity, the “ **Lead Arrangers** ”);

(6) **DNB BANK ASA** acting as security agent (in that capacity the “ **Security Agent** ”);

(7) the banks listed in Schedule 1, Part IV acting as bookrunners (the “ **Bookrunners** ” and each a “ **Bookrunner”**); and

(8) the banks listed in Schedule 1, Part II acting as swap providers (the “ **Swap Providers** ” and each a “ **Swap Provider** ”).

WHEREAS:

Each of the Lenders has agreed to advance to the Borrower its Commitment (aggregating, with all the other Commitments, a term loan facility of one hundred and thirty million Dollars ($130,000,000), being seventy five per cent (75%) of the Contracted Fixed Cash Flow) to finance a portion of the Borrower’s acquisition cost of the FPSO “PIRANEMA SPIRIT”.

IT IS AGREED as follows:

1 Definitions and Interpretation

1.1 In this Agreement:

“ **Account Charge** ” means the deed of charge referred to in Clause 10.1.8.

“ **Administration** ” has the meaning given to it in paragraph 1.1.3 of the ISM Code.

“ **Affiliate** ” means, in relation to any entity, a Subsidiary of that entity, a Holding Company of that entity or any other Subsidiary of that Holding Company.

“ **Approved Brokers** ” means H. Clarkson & Co. Ltd, Simpson Spence & Young Shipbrokers Ltd, Fearnley AS, R.S. Platou AS and Kennedy Marr.

“ **Assignment** ” means the deed of assignment of Insurances, Earnings, Charter Rights and Requisition Compensation and of the benefit of the Charterer’s Assignment as referred to in Clause 10.1.2.

“ **Authorisation** ” means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

“ **Balloon Amount** ” means the amount of up to sixty five million Dollars (US$65,000,000) forming part or all of the Repayment Instalment to be repaid by the Borrower on the Maturity Date or on any other date when the Balloon Amount is repayable pursuant to the Loan Agreement.

“ **Bareboat Charter** ” means the bareboat charter for the Vessel executed or to be executed on the terms and conditions of which the Bareboat Charterer will bareboat charter the Vessel from the Borrower, as amended and/or restated from time to time.

“ **Bareboat Charterer** ” means Piranema Production AS (formerly Sevan Production AS) of Kittelsbuktveien 5, 4836 Arendal, Norway.

“ **Break Costs** ” means all sums payable by the Borrower from time to time under Clause 8.3.

“ **Business Day** ” means a day on which banks are open for business of a nature contemplated by this Agreement (and not authorised by law to close) in New York, London, Basel and any other financial centre which the Agent may reasonably consider appropriate for the operation of the provisions of this Agreement and which it notifies to the Borrower in writing.

“ **Charterer’s Assignment** ” means an assignment by the Bareboat Charterer to the Borrower of its interest in the Earnings, the Insurances and in any Requisition Compensation (as applicable).

“ **Charter Contract** ” means the charter contract for the Vessel dated 29 April 2005 and made between the Bareboat Charterer, the Operator and the Piranema Manager as amended, novated and/or restated from time to time.

“ **Charter Rights** ” means all rights and benefits accruing to the Borrower under or pursuant to the Bareboat Charter and not forming part of the Earnings.

“ **Commitment** ” means, in relation to a Lender, the aggregate amount of the Loan which that Lender agrees to advance to the Borrower as its several liability as indicated against the name of that Lender in Schedule 1 or assumed by it in accordance with Clause 2.2 and/or, where the context permits, the amount of the Loan advanced by that Lender and remaining outstanding and “ **Commitments** ” means more than one of them.

“ **Commitment Fee** ” means the commitment fee to be paid by the Borrower to the Agent on behalf of the Lenders pursuant to Clause 9.1.

“ **Commitment Termination Date** ” means the date being one (1) month from the date of this Agreement, or such later date as the Lenders may in their discretion agree.

“ **Confirmation** ” in relation to any Transaction, has the meaning given in the relevant Master Agreement.

“ **Contracted Fixed Cash Flow** ” means the projected aggregate free cash flow from operations as at 1 January 2012, after projected operating expenses, available to service principal and interest under the Facility, expected to be generated from the Charter Contract.

“ **Credit Support Document** ” means any document described as such in a Master Agreement and, where the context permits, any other document referred to in any Credit Support Document which has the effect of creating an Encumbrance in favour of any of the Finance Parties.

“ **Currency of Account** ” means, in relation to any payment to be made to a Finance Party under a Finance Document, the currency in which that payment is required to be made by the terms of that Finance Document.

“ **Deed of Covenants** ” means the deed of covenants referred to in Clause 10.1.1.

“ **Default** ” means an Event of Default or any event or circumstance specified in Clause 13.1 which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

“ **Defaulting Lender** ” means any Lender:

(a) which has failed to make its participation in the Loan available or has notified the Agent that it will not make its participation in the Loan available by the Drawdown Date in accordance with Clause 4.2; or

(b) which has otherwise rescinded or repudiated a Finance Document,

unless, in the case of paragraph (a) above:

(i) its failure to pay is caused by:

(A) administrative or technical error; or

(B) a Disruption Event; and,

payment is made within three (3) Business Days of its due date; or

(ii) the Lender is, for a period not exceeding ten (10) Business Days, disputing in good faith whether it is contractually obliged to make the payment in question.

“ **Default Rate** ” means the rate set out in Clause 7.8.

“ **Disruption Event** ” means either or both of:

(a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Loan (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or

(b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

(i) from performing its payment obligations under the Finance Documents; or

(ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

" **DOC** " means, in relation to the ISM Company, a valid Document of Compliance issued for the ISM Company by the Administration under paragraph 13.2 of the ISM Code.

" **Dollars** ", " **US$** " and " **$** " each means available and freely transferable and convertible funds in lawful currency of the United States of America.

" **Drawdown Date** " means the date on which the Loan is advanced under Clause 4.

" **Drawdown Notice** " means a notice substantially in the form set out in Schedule 4.

" **Earnings** " means all hires, freights, pool income and other sums payable to or for the account of the Borrower and/or the Bareboat Charterer in respect of the Vessel including (without limitation) all remuneration for salvage and towage services, demurrage and detention moneys, contributions in general average, compensation in respect of any requisition for hire, and damages and other payments (whether awarded by any court or arbitral tribunal or by agreement or otherwise) for breach, termination or variation of any contract for the operation, employment or use of the Vessel.

" **Earnings Account** " means the bank account opened or to be opened in the name of the Borrower with DNB Bank ASA, Oslo Branch for the payment of Earnings in relation to the Vessel.

“ **Encumbrance** ” means a mortgage, charge, assignment, pledge, lien, or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

“ **Environmental Affiliate** ” means an agent or employee of the Borrower or the Bareboat Charterer or a person in a contractual relationship (but excluding the Operator and its Affiliates) with the Borrower or the Bareboat Charterer in respect of the Vessel (including without limitation, the operation of or the carriage of cargo of the Vessel).

“ **Environmental Approvals** ” means any present or future permit, licence, approval, ruling, variance, exemption or other authorisation required under the applicable Environmental Laws.

“ **Environmental Claim** ” means any and all enforcement, clean-up, removal, administrative, governmental, regulatory or judicial actions, orders, demands or investigations instituted or completed pursuant to any Environmental Laws or Environmental Approvals together with any claims made by any third person relating to damage, contribution, loss or injury resulting from any Environmental Incident.

“ **Environmental Incident** ” means:

(a) any release of Environmentally Sensitive Material from the Vessel; or

(b) any incident in which Environmentally Sensitive Material is released from a vessel other than the Vessel and which involves a collision between the Vessel and such other vessel or some other incident of navigation or operation, in either case, in connection with which the Vessel is actually or potentially liable to be arrested, attached, detained or injuncted and/or where any guarantor, any manager (or any sub-manager of the Vessel) or any of its officers, employees or other persons retained or instructed by it (or such sub-manager) are at fault or allegedly at fault or otherwise liable to any legal or administrative action; or

(c) any other incident in which Environmentally Sensitive Material is released otherwise than from the Vessel and in connection with which the Vessel is actually or potentially liable to be arrested and/or where any guarantor, any manager (or any sub-manager of the Vessel) or any of its officers, employees or other persons retained or instructed by it (or such sub-manager) are at fault or allegedly at fault or otherwise liable to any legal or administrative action.

" **Environmental Laws** " means all present and future laws, regulations, treaties and conventions of any applicable jurisdiction which:

(a) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the environment;

(b) relate to the carriage of Environmentally Sensitive Material or to actual or threatened releases of Environmentally Sensitive Material;

(c) provide remedies or compensation for harm or damage to the environment; or

(d) relate to Environmentally Sensitive Materials or health or safety matters.

" **Environmentally Sensitive Material** " means (i) oil and oil products and (ii) any other waste, pollutant, contaminant or other substance (including any liquid, solid, gas, ion, living organism or noise) that may be harmful to human health or other life or the environment or a nuisance to any person or that may make the enjoyment, ownership or other territorial control of any affected land, property or waters more costly for such person to a material degree.

" **Event of Default** " means any of the events or circumstances set out in Clause 13.1.

" **Execution Date** " means the date on which this Agreement is executed by each of the parties hereto.

" **Facility** " means the secured term loan facility made available to the Borrower pursuant to this Agreement.

" **Facility Period** " means the period beginning on the date of this Agreement and ending on the date when the whole of the Indebtedness has been repaid in full and the Security Parties have ceased to be under any further actual or contingent liability to the Finance Parties under or in connection with the Finance Documents.

" **Fee Letter** " means any letter or letters dated on or around the date hereof setting out certain fees referred to in Clause 9.

" **Finance Documents** " means this Agreement, the Security Documents, any Fee Letter and any other document designated as such by the Agent and the Borrower and " **Finance Document** " means any one of them.

" **Finance Parties** " means the Agent, the Security Agent, the MLAs, the Lead Arrangers, the Bookrunners, the Swap Providers and the Lenders and " **Finance Party** " means any one of them.

" **GAAP** " means generally accepted accounting principles in the United States of America.

" **Group** " means (i) the TOO Group; and/or (ii) the Teekay Group (as applicable).

" **Guarantees** " means the Teekay Guarantee and the TOO Guarantee (each a " **Guarantee** ").

" **Guarantor** " means (i) TOO (under the TOO Guarantee) and (ii) Teekay (under the Teekay Guarantee) (together the " **Guarantors** ").

" **Holding Company** " means, in relation to any entity, any other entity in respect of which it is a Subsidiary.

" **Increase Confirmation** " means a confirmation substantially in the form set out in Schedule 6.

" **Increase Lender** " has the meaning given to that term in Clause 2.2.

" **Indebtedness** " means the aggregate from time to time of: the amount of the Loan outstanding; all accrued and unpaid interest on the Loan; any Master Agreement Liabilities; and all other sums of any nature (together with all accrued and unpaid interest on any of those sums) which from time to time may be payable by the Borrower to any of the Finance Parties under all or any of the Finance Documents.

" **Insurances** " means all policies and contracts of insurance (including all entries in protection and indemnity or war risks associations) which are from time to time taken out or entered into in respect of or in connection with the Vessel or her increased value and (where the context permits) all benefits under such contracts and policies, including all claims of any nature and returns of premium.

“ **Interest Payment Date** ” means each date for the payment of interest in accordance with Clause 7.7.

“ **Interest Period** ” means each period for the payment of interest selected by the Borrower or agreed by the Agent pursuant to Clause 7.

“ **ISM Code** ” means the International Management Code for the Safe Operation of Ships and for Pollution Prevention.

“ **ISM Company** ” means, at any given time, the company responsible for the Vessel’s compliance with the ISM Code under paragraph 1.1.2 of the ISM Code.

“ **ISPS Code** ” means the International Ship and Port Facility Security Code.

“ **ISPS Company** ” means, at any given time, the company responsible for the Vessel’s compliance with the ISPS Code.

“ **ISSC** ” means a valid international ship security certificate for the Vessel issued under the ISPS Code.

“ **law** ” or “ **Law** ” means any law, statute, treaty, convention, regulation, instrument or other subordinate legislation or other legislative or quasi-legislative rule or measure, or any order or decree of any government, judicial or public or other body or authority, or any directive, code of practice, circular, guidance note or other direction issued by any competent authority or agency (whether or not having the force of law).

“ **LIBOR** ” means:

(a) the applicable Screen Rate; or

(b) (if no Screen Rate is available for any Interest Period) the arithmetic mean of the rates (rounded up to four decimal places) as supplied to the Agent at its request offered by the Reference Banks to leading banks in the London interbank market, for that Loan or other sum, and if any such rate is below zero, LIBOR shall be deemed to be zero at 11.00 a.m. London time two (2) Business Days before the first day of the relevant Interest Period for the offering of deposits in Dollars in an amount comparable to the Loan (or any relevant part of the Loan) and for a period comparable to the relevant Interest Period.

" **Loan** " means the aggregate amount advanced or to be advanced by the Lenders to the Borrower under Clause 4 or, where the context permits, the amount advanced and for the time being outstanding.

" **Majority Lenders** " means a Lender or Lenders whose Commitments aggregate more than sixty six and two thirds per cent (66 2/3%) of the aggregate of all the Commitments.

" **Management Agreement** " means any agreement(s) for the commercial and/or technical management of the Vessel entered into between the Borrower or the Bareboat Charterer and any Manager which is not the Piranema Manager or a management company which is wholly owned or controlled by either of the Guarantors.

" **Manager's Confirmation** " means a written confirmation from a Manager of the Vessel (which is not a company controlled by either of the Guarantors) that throughout the Facility Period and unless otherwise agreed by the Agent, they will remain the commercial and/or technical managers of the Vessel and that they will not, without the prior written consent of the Agent, sub-contract or delegate the commercial and/or technical management of the Vessel to any third party.

" **Managers** " means the Piranema Manager or a management company which is wholly owned by either of the Guarantors or such other commercial and/or technical managers of the Vessels nominated by the Borrower or the Bareboat Charterer as the Agent acting on the instructions of the Majority Lenders may approve.

" **Mandatory Cost** " means the percentage rate per annum calculated by the Agent in accordance with Schedule 3.

" **Margin** " means three per cent (3%) per annum.

" **Master Agreements** " means any ISDA Master Agreement (or any other form of master agreement relating to interest rate transactions) entered into between any Swap Provider and the Borrower to hedge any exposure arising under this Agreement during the Facility Period including each Schedule to any Master Agreement and each Confirmation exchanged pursuant to any Master Agreement.

" **Master Agreement Benefits** " means all benefits whatsoever of the Borrower under or in connection with a Master Agreement including, without limitation, all moneys payable to the Borrower under such Master Agreement and all claims for damages in respect of any breach by any Swap Provider of such Master Agreement.

" **Master Agreement Charge** " means the master agreement deed of charge referred to in Clause 10.1.6.

" **Master Agreement Liabilities** " means at any relevant time all liabilities of the Borrower to any Swap Provider under or pursuant to a Master Agreement or any Transaction, whether actual or contingent, present or future.

" **Material Adverse Effect** " means a material adverse change in, or a material adverse effect on:

(a) the financial condition, assets, prospects or business of any Security Party or on the consolidated financial condition, assets, prospects or business of the relevant Group;

(b) the ability of any Security Party to perform and comply with its obligations under any Relevant Document or to avoid any Event of Default;

(c) the validity, legality or enforceability of any Relevant Document; or

(d) the validity, legality or enforceability of any security expressed to be created pursuant to any Relevant Document or the priority and ranking of any such security,

provided that, in determining whether any of the forgoing circumstances shall constitute such a material adverse change or material adverse effect for the purposes of this definition, the Finance Parties shall consider such circumstance in the context of (x) the relevant Group taken as a whole and (y) the ability of the Security Parties to perform each of their obligations under the Relevant Documents.

“ **Maturity Date** ” means the date falling five (5) years after the Drawdown Date.

“ **Maximum Amount** ” means one hundred and thirty million Dollars ($130,000,000).

“ **MOA** ” means the memorandum of agreement dated 26 January 2012 in respect of the sale of the Vessel by the Seller to the Borrower.

“ **Mortgage** ” means the first priority statutory mortgage referred to in Clause 10.1.1 together with the Deed of Covenants.

“ **Necessary Authorisations** ” means all Authorisations of any person including any government or other regulatory authority required by applicable Law to enable it to:

(a) lawfully enter into and perform its obligations under the Relevant Documents and Master Agreements to which it is party;

(b) ensure the legality, validity, enforceability or admissibility in evidence in England and, if different, its jurisdiction of incorporation, of such Relevant Documents and Master Agreement to which it is party; and

(c) carry on its business from time to time.

“ **Operator** ” means Petróleo Brasileiro S.A. – Petrobras.

“ **Party** ” means a party to this Agreement.

“ **Permitted Encumbrance** ” means (i) any Encumbrance which has the prior written approval of the Agent acting on the instructions of all the Lenders or (ii) any liens for current crews’ wages and salvage and liens incurred in the ordinary course of trading the Vessel up to an aggregate amount at any time not exceeding ten million Dollars ($10,000,000).

“ **Piranema Manager** ” means Sevan Piranema Servicos de Petróleo Ltda. of Av. Presidente Wilson 231 – sala 1003 e 1004, parte Rio de Janeiro – Rj – CEP 20011-000 Brazil.

“ **Pre-Approved Classification Society** ” means any of Det norske Veritas, Lloyds Register, American Bureau of Shipping (ABS), Germanischer Lloyd or Bureau Veritas or such other classification society acceptable to the Majority Lenders.

“ **Pre-Approved Flag** ” means Marshall Islands, Norwegian International Ship Registry, Norwegian Ordinary Register, Liberia, Panama, Isle of Man, UK, Cayman Islands, Bermuda, Bahamas and Singapore.

“ **Project Agreements** ” means the Charter Contract, the Bareboat Charter, the Charterer’s Assignment and the Management Agreements (if any), each as amended or extended from time to time.

“ **Proportionate Share** ” means, at any time, the proportion which a Lender’s Commitment (whether or not advanced) then bears to the aggregate Commitments of all the Lenders (whether or not advanced) being on the Execution Date the percentage indicated against the name of that Lender in Schedule 1.

“ **Quiet Enjoyment Letter** ” means a letter agreement made or to be made between the Security Agent and the Operator, if so required by the Operator, in form and substance acceptable to the Lenders.

“ **Reference Banks** ” means, in relation to LIBOR, DNB Bank ASA and such other banks as may be appointed by the Agent in consultation with the Borrower.

“ **Relevant Documents** ” means the Finance Documents, the Master Agreements and the Project Agreements.

“ **Relevant Percentage** ” means, in respect of any Subsidiary of a Guarantor at any time, the percentage of the equity share capital or the partnership capital, as the case may be, of such Subsidiary which is beneficially owned (free from Encumbrances) by such Guarantor at such time.

“ **Repayment Date** ” means the date for payment of any Repayment Instalment in accordance with Clause 5.1.

“Repayment Instalment” means any instalment of the Loan to be repaid by the Borrower under Clause 5.1 (*Repayment of Loan*).

“ **Requisition Compensation** ” means all compensation or other money which may from time to time be payable to the Borrower and/or the Bareboat Charterer as a result of the Vessel being requisitioned for title or in any other way compulsorily acquired (other than by way of requisition for hire).

" **Restricted Countries** " means those countries subject to sanctions and/or trade embargoes, in particular but not limited to pursuant to the U.S.'s Office of Foreign Asset Control of the U.S. Department of Treasury ("OFAC") including at the Execution Date, but without limitation, Cuba, Iran, Myanmar, North Korea, Sudan and Syria and any additional countries notified by the Agent to the Borrower based on respective sanctions being imposed by OFAC or any of the regulative bodies referred to in the definition of Restricted Persons.

" **Restricted Persons** " means persons, entities or any other parties (i) located, domiciled, resident or incorporated in Restricted Countries, and/or (ii) subject to any sanction administrated by the United Nations, the European Union, Switzerland, OFAC, HM Treasury and the Foreign and Commonwealth Office of the United Kingdom, the Monetary Authority of Singapore and the Hong Kong Monetary Authority and/or any other applicable country and/or (iii) owned or controlled by or affiliated with persons, entities or any other parties as referred to in (i) and (ii).

" **Screen Rate** " means in relation to LIBOR, the British Bankers' Association Interest Settlement Rate for the relevant currency and period displayed on the appropriate page of the Reuters page LIBOR 01 (or such other page or pages which replace(s) such page for the purposes of displaying offered rates of leading banks, for deposits in Dollars of amounts equal to the amount of the Loan for a period equal in length to the relevant Interest Period.

" **Security Documents** " means the Mortgage, the Deed of Covenants, the Assignment, the Shares Charge, the Guarantees, any Manager's Confirmation, the Master Agreement Charge, the Account Charge or (where the context permits) any one or more of them and any other agreement or document which may at any time be executed by any person as security for the payment of all or any part of the Indebtedness, and " **Security Document** " means any one of them.

" **Security Parties** " means at any relevant time, the Borrower, the Bareboat Charterer, the Piranema Manager, the Guarantors and any other person who may at any time during the Facility Period be liable for, or provide security for, all or any part of the Indebtedness but, for the avoidance of doubt, excluding the Operator and any Manager which is not wholly owned or controlled by either Teekay or TOO, and " **Security Party** " means any one of them.

“ **Seller** ” means Piranema Production AS (formerly Sevan Production AS) of Kittelsbuktveien 5, 4836 Arendal, Norway.

“ **Shares Charge** ” means the first priority charge over all of the membership interests in the Borrower referred to in Clause 10.1.5 to be given by TOO.

“ **SMC** ” means a valid safety management certificate issued for the Vessel by or on behalf of the Administration under paragraph 13.7 of the ISM Code.

“ **SMS** ” means a safety management system for the Vessel developed and implemented in accordance with the ISM Code.

“ **Subsidiary** ” means a subsidiary undertaking, as defined in section 1159 Companies Act 2006 or any analogous definition under any other relevant system of law.

“ **Tax** ” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) and “ **Taxation** ” shall be interpreted accordingly.

“ **Teekay** ” means Teekay Corporation, a corporation incorporated under the laws of the Marshall Islands

“ **Teekay Group** ” means Teekay and each of its Subsidiaries.

“ **Teekay Guarantee** ” means the guarantee and indemnity referred to in clause 10.1.4.

“ **TOO** ” means Teekay Offshore Partners L.P. a limited partnership incorporated under the laws of the Marshall Islands.

“ **TOO Group** ” means TOO and each of its Subsidiaries.

“ **TOO Guarantee** ” means the guarantee and indemnity referred to in clause 10.1.3.

“ **Total Loss** ” means:

(a) an actual, constructive, arranged, agreed or compromised total loss of the Vessel; or

(b) the requisition for title or compulsory acquisition, nationalisation or expropriation of the Vessel by or on behalf of any government or other authority (other than by way of requisition for hire); or

(c) the capture, seizure, arrest, detention or confiscation of the Vessel unless the Vessel is released and returned to the possession of the Borrower or the Bareboat Charterer within ninety (90) days after the capture, seizure, arrest, detention or confiscation in question.

" **Transaction** " means a transaction entered into between any Swap Provider and the Borrower governed by a Master Agreement.

" **Transfer Certificate** " means a certificate substantially in the form set out in Schedule 5 or any other form agreed between the Agent and the Borrower.

" **Transfer Date** " means, in relation to any Transfer Certificate, the date for the making of the transfer specified in the schedule to such Transfer Certificate.

" **Trust Property** " means:

(a) all benefits derived by the Security Agent from Clause 10; and

(b) all benefits arising under (including, without limitation, all proceeds of the enforcement of) each of the Finance Documents,

with the exception of any benefits arising solely for the benefit of the Security Agent.

" **Vessel** " means the FPSO named PIRANEMA SPIRIT and everything now or in the future belonging to it on board or ashore.

(c) In this Agreement:

(a) words denoting the plural number include the singular and vice versa;

(b) words denoting persons include corporations, partnerships, associations of persons (whether incorporated or not) or governmental or quasi-governmental bodies or authorities and vice versa;

(c) references to Recitals, Clauses and Schedules are references to recitals, clauses and schedules to or of this Agreement;

(d) references to this Agreement include the Recitals and the Schedules;

(e) the headings and contents page(s) are for the purpose of reference only, have no legal or other significance, and shall be ignored in the interpretation of this Agreement;

(f) references to any document (including, without limitation, to all or any of the Relevant Documents) are, unless the context otherwise requires, references to that document as amended, supplemented, novated or replaced from time to time;

(g) references to statutes or provisions of statutes are references to those statutes, or those provisions, as from time to time amended, replaced or re-enacted;

(h) references to any Finance Party include its successors, transferees and assignees;

(i) a time of day (unless otherwise specified) is a reference to London time.

(d) **Offer letter**

This Agreement supersedes the terms and conditions contained in any correspondence relating to the subject matter of this Agreement exchanged between any Finance Party and the Borrower or their representatives prior to the date of this Agreement.

2 The Loan and its Purposes

2.1 **Amount** Subject to the terms of this Agreement, each of the Lenders agrees to make available to the Borrower its Commitment of a term loan in an aggregate amount not exceeding the Maximum Amount.

2.2 **Increase** The Borrower may by giving prior notice to the Agent by no later than the date falling fifteen (15) Business Days after the effective date of a cancellation of:

2.2.1 the Commitment of a Defaulting Lender in accordance with Clause 15.23; or

2.2.2 the Commitments of a Lender in accordance with Clause 6.1,

request that the Loan be increased in an aggregate amount in Dollars of up to the amount of the Commitment so cancelled as follows:

2.2.3 the increased Commitment will be assumed by one or more Lenders or other banks or financial institutions (each an " **Increase Lender** ") selected by the Borrower (each of which shall not be a member of the Group and which is further acceptable to the Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitment which it is to assume, as if it had been an original Lender;

2.2.4 each of the Security Parties and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Security Parties and the Increase Lender would have assumed and/or acquired had the Increase Lender been an original Lender;

2.2.5 each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an original Lender;

2.2.6 the Commitments of the other Lenders shall continue in full force and effect; and

2.2.7 any increase in the Loan shall take effect on the date specified by the Borrower in the notice referred to above or any later date on which the conditions set out in Clause 2.2.8 below are satisfied.

2.2.8 An increase in the Loan will only be effective on:

(i) the execution by the Agent of an Increase Confirmation from the relevant Increase Lender;

(ii) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase, the performance by the Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Agent shall promptly notify to the Borrower the Increase Lender, and the Agent shall, as soon as reasonably practicable after it has executed a Increase Confirmation, send to the Borrower a copy of that Increase Confirmation;

2.2.9 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.

2.2.10 the relevant Increase Lender shall, on the date upon which the increase takes effect, pay to the Agent (for its own account) a fee of five thousand Dollars ($5,000) and such Increase Lender shall promptly on demand pay the Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in the Loan under this Clause 2.2.

2.2.11 The Borrower may pay to the Increase Lender a fee in the amount and at the times agreed between the Borrower and the Increase Lender in a letter between the Borrower and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.

2.2.12 The Agent, each of the Lenders and the Increase Lender shall have the same rights and obligations between themselves as they would have had if the Increase Lender had been an original party to this Agreement as a Lender.

2.3 **Finance Parties' obligations**

2.3.1 The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other party to the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.

2.3.2 The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from a Security Party shall be a separate and independent debt.

2.3.3 A Finance Party may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents.

2.4 **Purposes** The Borrower shall apply the Loan for the purposes referred to in the Recital.

2.5 **Monitoring** No Finance Party is bound to monitor or verify the application of any amount borrowed under this Agreement.

3 Conditions of Utilisation

3.1 **Conditions precedent** Before any Lender shall have any obligation to advance the Loan under the Facility the Borrower shall deliver or cause to be delivered to or to the order of the Agent all of the documents and other evidence listed in Part I of Schedule 2.

3.2 **Further conditions precedent** The Lenders will only be obliged to advance the Loan if on the date of the Drawdown Notice and on the proposed Drawdown Date:

3.2.1 no Default is continuing or would result from the advance of the Loan; and

3.2.2 the representations made by the Borrower under Clause 11 (other than that in Clauses 11.2, 11.6 and 11.18) are true in all material respects.

3.3 **Termination Date** No Lender shall be under any obligation to advance all or any part of its Commitment after the Commitment Termination Date.

3.4 **Conditions subsequent** The Borrower undertakes to deliver or to cause to be delivered to the Agent on, or as soon as practicable after, (or within any time period specific in Schedule 2 Part II) the Drawdown Date the additional documents and other evidence listed in Part II of Schedule 2.

3.5 **No Waiver** If the Lenders in their sole discretion agree to advance the Loan to the Borrower before all of the documents and evidence required by Clause 3.1 have been delivered to or to the order of the Agent, the Borrower undertakes to deliver all outstanding documents and evidence to or to the order of the Agent no later than the date specified by the Agent, except to the extent expressly waived by the Agent in writing.

The advance of all or any part of the Loan under this Clause 3.5 shall not be taken as a waiver of the Lenders' right to require production of all the documents and evidence required by Clause 3.1.

3.6 **Form and content** All documents and evidence delivered to the Agent under this Clause 3 shall:

3.6.1 be in form and substance reasonably acceptable to the Agent; and

3.6.2 if reasonably required by the Agent, be certified, notarised, legalised or attested in a manner acceptable to the Agent.

4 Advance

4.1 **Drawdown Request** The Borrower may request the Loan to be advanced in one amount on any Business Day prior to the Commitment Termination Date by delivering to the Agent a duly completed Drawdown Notice not more than ten (10) and not fewer than three (3) Business Days before the proposed Drawdown Date. Any such Drawdown Notice shall be signed by an authorised signatory (including any Attorney-in-Fact) of the Borrower and, once delivered, is irrevocable.

4.2 **Lenders' participation** Subject to Clauses 2 and 3, the Agent shall promptly notify each Lender of the receipt of the Drawdown Notice, following which each Lender shall advance its Commitment to the Borrower through the Agent on the Drawdown Date.

5 Repayment

5.1 **Repayment of Loan** The Borrower agrees to repay the Loan to the Agent for the account of the Lenders by twenty (20) consecutive quarterly instalments each in the sum of three million, two hundred and fifty thousand Dollars ($3,250,000), the first instalment falling due on the date which is three calendar months after the Drawdown Date and subsequent instalments falling due at consecutive intervals of three calendar months thereafter together with the Balloon Amount, payable simultaneously with the final Repayment Instalment.

5.2 **Reduction of Repayment Instalments** If the aggregate amount advanced to the Borrower is less than the Maximum Amount, the amount of each Repayment Instalment shall be reduced pro rata to the amount actually advanced.

5.3 **Maturity Date** Any unpaid portion of the Loan shall be repaid in full by the Borrower on or before the Maturity Date.

5.4 **Reborrowing** The Borrowers may not reborrow any part of the Loan which is repaid or prepaid.

6 Prepayment

6.1 **Illegality** If it becomes unlawful in any applicable jurisdiction for a Lender to fund or maintain its Commitment as contemplated by this Agreement or to fund or maintain the Loan:

6.1.1 that Lender shall promptly notify the Agent of that event;

6.1.2 upon the Agent notifying the Borrower, the Commitment of that Lender (to the extent not already advanced) will be immediately cancelled; and

6.1.3 the Borrower shall repay that Lender’s Commitment (to the extent already advanced) on the last day of its current Interest Period or, if earlier, the date specified by that Lender in the notice delivered to the Agent and notified by the Agent to the Borrower (being no earlier than the last day of any applicable grace period permitted by law) and the remaining Repayment Instalments shall be reduced pro rata. Prior to the date on which repayment is required to be made under this Clause 6.1.3 the affected Lender shall negotiate in good faith with the Borrower to find an alternative method or lending base in order to maintain its Commitment in the Facility.

6.2 **Voluntary prepayment of Loan** The Borrower may prepay the whole or any part of the Loan (but, if in part, being an amount that reduces the Loan by a minimum amount of five million Dollars ($5,000,000)) subject as follows:

6.2.1 it gives the Agent not less than three (3) Business Days' (or such shorter period as the Majority Lenders may agree) prior notice;

6.2.2 no prepayment may be made until after the Commitment Termination Date; and

6.2.3 any prepayment under this Clause 6.2 shall satisfy the obligations under Clause 5.1 in inverse order of maturity.

6.3 **Restrictions** Any notice of prepayment given under this Clause 6 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant prepayment is to be made and the amount of that prepayment.

Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.

If the Agent receives a notice under this Clause 6 it shall promptly forward a copy of that notice to the Borrower or the Lenders, as appropriate.

6.4 **Sale of Vessel** In the event of a sale or disposal of the Vessel, or any sale of the share capital of the Borrower by TOO, the Borrower shall, on the date of the sale or disposal, prepay the Loan in full. Any such prepayment shall oblige the Borrower to make payment of all interest and Commitment Commission accrued on the amount so reduced up to and including the date of reduction together with any Break Costs in respect of such reduced amount if the date of such reduction is not the final day of an Interest Period.

6.5 **Total Loss** In the event that the Vessel becomes a Total Loss:

(i) the Borrower shall, on the earlier to occur of (i) the date on which the Borrower receives the proceeds of such Total Loss and (ii) the one hundred and twentieth day after the date of such Total Loss occurring, prepay the Loan in full PROVIDED ALWAYS that if such date is not the final day of an Interest Period, the Borrower may instead place the relevant sum in an account with the Security Agent, charged to the Security Agent in a manner reasonably acceptable to the Lenders, with an irrevocable instruction to the Security Agent to apply such sum in prepayment of the Loan on the final day of such Interest Period; and

(ii) the Loan (if not yet drawn) will not be advanced after the occurrence of a Total Loss.

6.6 **Change of Ownership** In the event that:

(a) any person or any two or more persons acting together (excluding Resolute Investments, Inc. or any successor thereto) acquire (a) legally or beneficially and either directly or indirectly more than 50% of the entire issued share capital of Teekay; or (b) the right or ability to control, either directly or indirectly, the affairs or the composition of the majority of the board of directors of Teekay; or

(b) Teekay ceases to own and control a minimum of fifty one percent (51%) of the voting rights in Teekay Offshore GP L.L.C, the general partner in TOO; or

(c) Teekay Offshore GP L.L.C. ceases to own and control a minimum of fifty one percent (51%) of the general partner interest in TOO; or

(d) TOO ceases to maintain its listing as a publically-traded master limited partnership on the New York Stock Exchange; or

(e) there is any change in the legal or beneficial ownership of or control over the Borrower by TOO without the Majority Lenders' prior written consent,

then the Borrower shall prepay the Loan in full.

6.7 **Project Agreement Termination** In the event that:

(a) any of the Project Agreements is terminated by the Borrower, the Bareboat Charter or any of their respective Affiliates by reason of breach by the Operator or a Manager who is not controlled by either of the Guarantors; or

(b) any of the Project Agreements are breached by the Operator or by a Manager who is not controlled by either of the Guarantors, in a manner that gives rise to a right to terminate such Project Agreement or treat it as repudiated, by the Borrower; or

(c) any of the Project Agreements is terminated by the Operator pursuant to an "Economic Hardship" provision in any Project Agreement,

then, unless a replacement Project Agreement is entered into within one hundred and eighty (180) days by the Borrower and/or the Bareboat Charter and/or a Subsidiary of the relevant Guarantor acceptable to the Majority Lenders, on terms reasonably acceptable to the Majority Lenders, the Borrower shall prepay the Loan in full.

7 Interest

7.1 **Interest Periods** The period during which the Loan shall be outstanding under this Agreement shall be an Interest Period of three or six months' duration, as selected by the Borrower by written notice to the Agent not later than 11.00 am on the third Business Day before beginning of the Interest Period in question, or such other duration as may be agreed by the Agent (acting on the instructions of all the Lenders).

7.2 **Beginning and end of Interest Periods** Each Interest Period shall begin on the Drawdown Date or (if the Loan is already made) on the last day of the preceding Interest Period and shall end on the date which numerically corresponds to the Drawdown Date or the last day of the preceding Interest Period in the relevant calendar month except that, if there is no numerically corresponding date in that calendar month, the Interest Period shall end on the last Business Day in that month.

7.3 **Interest Periods to meet Repayment Dates** If an Interest Period will expire after the Repayment Date, there shall be a separate Interest Period for that part of the Loan equal to the Repayment Instalment due on that next Repayment Date and that separate Interest Period shall expire on that next Repayment Date.

7.4 **Non-Business Days** If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

7.5 **Interest rate** During each Interest Period interest shall accrue on the Loan at the rate determined by the Agent to be the aggregate of (a) the Margin, (b) LIBOR and (c) the Mandatory Cost, if applicable.

7.6 **Failure to select Interest Period** If the Borrower at any time fails to select or agree an Interest Period in accordance with Clause 7.1, the interest rate applicable shall be three (3) months.

7.7 **Accrual and payment of interest** Interest shall accrue from day to day, shall be calculated on the basis of a 360 day year and the actual number of days elapsed (or, in any circumstance where market practice differs, in accordance with the prevailing market practice) and shall be paid by the Borrower to the Agent for the account of the Lenders on the last day of each Interest Period and, if the Interest Period is longer than three months, on the dates falling at three monthly intervals after the first day of that Interest Period.

7.8 **Default interest** If the Borrower fails to pay any amount payable by it under a Finance Document on its due date, interest shall accrue on the overdue amount from the due date, subject to any applicable grace period, up to the date of actual payment (both before and after judgment) at a rate which is one point five per cent (1.5%) higher than the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted the Loan in the currency of the overdue amount for successive Interest Periods, each selected by the Agent (acting reasonably). Any interest accruing under this Clause 7.8 shall be immediately payable by the Borrower on demand by the Agent. If unpaid, any such interest will be compounded with the overdue amount at the end of each Interest Period applicable to that overdue amount but will remain immediately due and payable.

7.9 **Changes in market circumstances** If at any time (a) the Agent determines that LIBOR is not available for any Interest Period or (b) a Lender or Lenders (whose Commitment(s) exceed fifty per cent (50%) of the Loan) inform the Agent by written notice that the cost to it or them of obtaining matching deposits for any Interest Period would be in excess of LIBOR and that notice is received by the Agent no later than close of business in London on the day LIBOR is determined for that Interest Period:

7.9.1 the Agent shall give notice to the Lenders and the Borrower of the occurrence of such event; and

7.9.2 the rate of interest on each Lender's Commitment for that Interest Period shall be the rate per annum which is the sum of:

(a) the Margin; and

(b) the rate notified to the Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Interest Period, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its Commitment from whatever source it may reasonably select; and

(c) the Mandatory Cost, if any, applicable to that Lender's Commitment,

PROVIDED THAT if the resulting rate of interest on any Commitment is not acceptable to the Borrower:

7.9.3 the Agent on behalf of the Lenders will negotiate with the Borrower in good faith with a view to modifying this Agreement to provide a substitute basis for determining the rate of interest;

7.9.4 any substitute basis agreed pursuant to Clause 7.9.3 shall be binding on all the parties to this Agreement and shall apply to all Commitments;

7.9.5 if, within thirty (30) days of the giving of the notice referred to in Clause 7.9.1, the Borrower and the Agent fail to agree in writing on a substitute basis for determining the rate of interest, the Borrower will immediately prepay the relevant Commitment, together with any Break Costs, and the remaining Repayment Instalments shall be reduced pro rata.

7.10 **Determinations conclusive** The Agent shall promptly notify the Borrower of the determination of a rate of interest under this Clause 7 and each such determination shall (save in the case of manifest error) be final and conclusive.

8 Indemnities

8.1 **Transaction expenses** The Borrower will, within fourteen (14) days of the Agent's written demand, pay the Agent (for the account of the Finance Parties) the amount of all reasonable out of pocket costs and expenses (including legal fees, the cost of obtaining an initial insurance report (and of obtaining further insurance reports only if there is a material change in the terms of the Insurances or material change in the marine insurance market), and Value Added Tax or any similar or replacement tax if applicable) reasonably incurred by the Finance Parties or any of them in connection with:

8.1.1 the negotiation, preparation, printing, execution and registration of the Finance Documents and the Master Agreements (whether or not any Finance Document or Master Agreement is actually executed or registered and whether or not all or any part of the Loan is advanced);

8.1.2 any amendment, addendum or supplement to any Finance Document or Master Agreement (whether or not completed); and

8.1.3 any other document which may at any time be reasonably required by a Finance Party to give effect to any Finance Document or Master Agreement or which a Finance Party is entitled to call for or obtain under any Finance Document or Master Agreement.

8.2 **Funding costs** The Borrower shall indemnify each Finance Party, by payment to the Agent (for the account of that Finance Party) on the Agent's written demand, against all losses and costs incurred or sustained by that Finance Party if, for any reason due to a default or other action by the Borrower, the Loan is not advanced to the Borrower after the Drawdown Notice has been given to the Agent, or is advanced on a date other than that requested in the Drawdown Notice.

8.3 **Break Costs** As a result of a Finance Party receiving any prepayment of all or any part of the Loan (whether pursuant to Clause 6 or otherwise) on a day other than the last day of an Interest Period for the Loan or relevant part of the Loan, or any other payment under or in relation to the Finance Documents on a day other than the due date for payment of the sum in question the Borrower shall indemnify each Finance Party, by payment to the Agent (for the account of that Finance Party) on the Agent's written demand, against all documented costs, losses, premiums or penalties incurred by that Finance Party, including (without limitation) any losses or costs incurred in liquidating or re-employing deposits from third parties acquired to effect or maintain all or any part of the Loan and any liabilities, expenses or losses incurred by the Finance Party in terminating or reversing, or otherwise in connection with any open position arising under this Agreement.

8.4 **Currency indemnity** In the event of a Finance Party receiving or recovering any amount payable under a Finance Document in a currency other than the Currency of Account, and if the amount received or recovered is insufficient when converted into the Currency of Account at the date of receipt to satisfy in full the amount due, the Borrower shall, on the Agent's written demand, pay to the Agent for the account of the relevant Finance Party such further amount in the Currency of Account as is sufficient to satisfy in full the amount due and that further amount shall be due to the Agent on behalf of the relevant Finance Party as a separate debt under this Agreement.

8.5 **Increased costs (subject to Clause 8.6)** If, by reason of the introduction of any law, or any change in any law, or any change in the interpretation or administration of any law, or compliance with any request or requirement from any central bank or any fiscal, monetary or other authority occurring after the date of this Agreement:

8.5.1 a Finance Party (or the holding company of a Finance Party) shall be subject to any Tax with respect to payment of all or any part of the Indebtedness (other than Tax on overall net income); or

8.5.2 the basis of Taxation of payments to a Finance Party in respect of all or any part of the Indebtedness shall be changed; or

8.5.3 any reserve requirements shall be imposed, modified or deemed applicable against assets held by or deposits in or for the account of or loans by any branch of a Finance Party; or

8.5.4 the manner in which a Finance Party allocates capital resources to its obligations under this Agreement or any ratio (whether cash, capital adequacy, liquidity or otherwise) which a Finance Party is required or requested to maintain shall be affected; or

8.5.5 there is imposed on a Finance Party (or on the holding company of a Finance Party) by an unconnected third party any other condition in relation to the Indebtedness or the Finance Documents;

and the result of any of the above shall be to increase the cost to a Finance Party (or to the holding company of a Finance Party) of that Finance Party making or maintaining its Commitment, or to cause a Finance Party to suffer (in its opinion) a material reduction in the rate of return on its overall capital below the level which it reasonably anticipated at the date of this Agreement and which it would have been able to achieve but for its entering into this Agreement and/or performing its obligations under this Agreement, then, subject to Clause 8.6, the Finance Party affected shall notify the Agent and the Borrower shall from time to time pay to the Agent on demand for the account of that Finance Party the amount which shall compensate that Finance Party (or the relevant holding company) for such additional cost or reduced return. A certificate signed by an authorised signatory of that Finance Party setting out the amount of that payment and the basis of its calculation shall be submitted to the Borrower and shall be conclusive evidence of such amount save for manifest error or on any question of law.

8.6 **Exceptions to increased costs** Clause 8.5 does not apply to the extent any additional cost or reduced return referred to in that Clause is:

8.6.1 compensated for by a payment made under Clause 8.10; or

8.6.2 compensated for by a payment made under Clause 17.3; or

8.6.3 compensated for by the payment of the Mandatory Cost; or

8.6.4 attributable to the wilful breach by the relevant Finance Party (or the holding company of that Finance Party) of any law or regulation.

8.7 **Events of Default** The Borrower shall indemnify each Finance Party from time to time, by payment to the Agent (for the account of that Finance Party) on the Agent's written demand, against all losses and costs incurred or sustained by that Finance Party as a consequence of any Event of Default.

8.8 **Enforcement costs** The Borrower shall pay to the Agent (for the account of each Finance Party) on the Agent's written demand the amount of all costs and expenses (including legal fees) incurred by a Finance Party in connection with the enforcement of, or the preservation of any rights under, any Finance Document including (without limitation) any losses, costs and expenses which that Finance Party may from time to time sustain, incur or become liable for by reason of that Finance Party being mortgagee of the Vessel and/or a lender to the Borrower, or by reason of that Finance Party being deemed by any court or authority to be an operator or controller, or in any way concerned in the operation or control, of the Vessel. No such indemnity will be given where any such loss or cost has occurred due to gross negligence or wilful misconduct on the part of that Finance Party; however, this shall not effect the right of any other Finance Party to receive such indemnity.

8.9 **Other costs** The Borrower shall pay to the Agent (for the account of each Finance Party) on the Agent's written demand the amount of all sums which a Finance Party may pay or become actually or contingently liable for on account of the Borrower in connection with the Vessel (whether alone or jointly or jointly and severally with any other person) including (without limitation) all sums which that Finance Party may pay or guarantees which it may give in respect of the Insurances, any expenses incurred by that Finance Party in connection with the maintenance or repair of the Vessel or in discharging any lien, bond or other claim relating in any way to the Vessel, and any sums which that Finance Party may pay or guarantees which it may give to procure the release of the Vessel from arrest or detention.

8.10 **Taxes** The Borrower shall pay all Taxes to which all or any part of the Indebtedness or any Finance Document may be at any time subject (other than Tax on a Finance Party's overall net income) and shall indemnify the Finance Parties, by payment to the Agent (for the account of the Finance Parties) on the Agent's written demand, against all liabilities, costs, claims and expenses resulting from any omission to pay or delay in paying any such Taxes.

9 Fees

9.1 **Commitment fee** The Borrower shall pay to the Agent (for the account of the Lenders in proportion to their Commitments) a commitment fee at a per annum rate of forty per cent (40%) of the Margin on the daily undrawn and uncancelled amount of the Maximum Amount accruing from 14 December 2011 until the earlier of the Drawdown Date and the Commitment Termination Date. The accrued Commitment Fee is payable in arrears on the Commitment Termination Date or the Drawdown Date, whichever is the earlier. No commitment fee is payable to the Agent (for the account of a Lender) on any Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

9.2 **Upfront fee** The Borrower shall pay to the Lenders an upfront fee in the amount and at the times agreed in the Fee Letter.

9.3 **Agency fee** The Borrower shall pay to the Agent an agency fee in the amount and at the times agreed in the Fee Letter.

10 Security and Application of Moneys

10.1 **Security Documents** As security for the payment of the Indebtedness, the Borrower shall execute and deliver to the Security Agent or cause to be executed and delivered to the Security Agent at the relevant time, the following documents in such forms and containing such terms and conditions as the Security Agent shall require:

10.1.1 a first priority statutory mortgage over the Vessel together with a collateral deed of covenants;

10.1.2 a first priority deed of assignment of the Insurances, Earnings, Charter Rights and Requisition Compensation of the Vessel, and of the benefit of the Charterer’s Assignment;

10.1.3 an unconditional and irrevocable on demand guarantee and indemnity from TOO (for any period when the Borrower is owned by TOO or one of its Subsidiaries);

10.1.4 an unconditional and irrevocable on demand guarantee and indemnity from Teekay as security for the repayment of thirty million Dollars ($30,000,000) of the Balloon Amount;

10.1.5 a first priority charge from TOO over all the membership interests in the Borrower;

10.1.6 a first priority deed of charge over the Master Agreement Benefits;

10.1.7 at any time when the Managers are not controlled by either of the Guarantors, a Manager's Confirmation; and

10.1.8 a first priority deed of charge over the Earnings Account and all amounts from time to time standing to the credit of the Earnings Account.

10.2 **Remittance of Earnings** The Borrower shall procure that all Earnings are promptly paid to the Earnings Account and, immediately upon the occurrence of an Event of Default which is continuing unremedied or unwaived, the Borrower shall procure that all Earnings are paid to such account(s) as the Agent shall from time to time specify by notice in writing to the Borrower.

10.3 **General application of moneys** Whilst an Event of Default is continuing unremedied and unwaived the Borrower irrevocably authorises the Agent and the Security Agent to apply all sums which either of them may receive:

10.3.1 pursuant to a sale or other disposition of the Vessel or any right, title or interest in the Vessel; or

10.3.2 by way of payment of any sum in respect of the Insurances, Earnings or Requisition Compensation; or

10.3.3 otherwise arising under or in connection with any Finance Document,

in or towards satisfaction, or by way of retention on account, of the Indebtedness, as follows:-

(i) first in payment of all outstanding fees and expenses of the Agent and the Security Agent;

(ii) secondly in or towards payment of all outstanding interest hereunder;

(iii) thirdly in or towards payment of all outstanding principal hereunder;

(iv) fourthly in or towards payment of all other Indebtedness (other than Master Agreement Liabilities) that have fallen due in accordance with the terms of this Agreement hereunder;

(v) fifthly in or towards payment of any Master Agreement Liabilities; and

(vi) sixthly the balance, if any, shall be remitted to the Borrower or whoever may be entitled thereto.

11 Representations and Warranties

The Borrower represents and warrants to each of the Finance Parties at the Execution Date and (by reference to the facts and circumstances then pertaining), at the Drawdown Date and at each Interest Payment Date as follows (except that the representation and warranty contained at Clause 11.2 shall only be made on the Execution Date and the representations and warranties contained at Clauses 11.6 and 11.18 shall only be repeated on the Drawdown Date):-

11.1 **Status and Due Authorisation** Each of the Security Parties is a corporation, limited liability company or limited partnership duly incorporated or formed under the laws of its jurisdiction of incorporation, organisation or formation (as the case may be) with power to enter into the Finance Documents and to exercise its rights and perform its obligations under the Finance Documents and all corporate and other action required to authorise its execution of the Finance Documents and its performance of its obligations thereunder has been duly taken.

11.2 **No Deductions or Withholding** Under the laws of the Security Parties' respective jurisdictions of incorporation or formation in force at the date hereof, none of the Security Parties will be required to make any deduction or withholding from any payment it may make under any of the Finance Documents.

11.3 **Claims Pari Passu** Under the laws of the Security Parties' respective jurisdictions of incorporation or formation in force at the date hereof, the Indebtedness will, to the extent that it exceeds the realised value of any security granted in respect of the Indebtedness, rank at least *pari passu* with all the Security Parties' other unsecured indebtedness save that which is preferred solely by any bankruptcy, insolvency or other similar laws of general application.

11.4 **No Immunity** In any proceedings taken in any of the Security Parties' respective jurisdictions of incorporation or formation in relation to any of the Finance Documents, none of the Security Parties will be entitled to claim for itself or any of its assets immunity from suit, execution, attachment or other legal process.

11.5 **Governing Law and Judgments** In any proceedings taken in any of the Security Parties' jurisdiction of incorporation or formation in relation to any of the Security Documents in which there is an express choice of the law of a particular country as the governing law thereof, that choice of law and any judgment or (if applicable) arbitral award obtained in that country will be recognised and enforced.

11.6 **Validity and Admissibility in Evidence** As at the date hereof, all acts, conditions and things required to be done, fulfilled and performed in order (a) to enable each of the Security Parties lawfully to enter into, exercise its rights under and perform and comply with the obligations expressed to be assumed by it in the Finance Documents, (b) to ensure that the obligations expressed to be assumed by each of the Security Parties in the Finance Documents are legal, valid and binding and (c) to make the Finance Documents admissible in evidence in the jurisdictions of incorporation or formation of each of the Security Parties, have been done, fulfilled and performed.

11.7 **No Filing or Stamp Taxes** Under the laws of the Security Parties' respective jurisdictions of incorporation or formation in force at the date hereof, it is not necessary that any of the Finance Documents be filed, recorded or enrolled with any court or other authority in its jurisdiction of incorporation or formation (other than the relevant maritime registry) or that any stamp, registration or similar tax be paid on or in relation to any of the Finance Documents.

11.8 **Binding Obligations** The obligations expressed to be assumed by each of the Security Parties in the Finance Documents are legal and valid obligations, binding on each of them in accordance with the terms of the Finance Documents and no limit on any of their powers will be exceeded as a result of the borrowings, granting of security or giving of guarantees contemplated by the Finance Documents or the performance by any of them of any of their obligations thereunder.

11.9 **No Winding-up** The Borrower has not taken any limited liability company action nor have any other steps been taken or legal proceedings been started or (to the best of the Borrower's knowledge and belief) threatened against the Borrower for its winding-up, dissolution, administration or reorganisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of it or of any or all of its assets or revenues which might have a material adverse effect on the business or financial condition of the Group taken as a whole.

11.10 **Solvency**

11.10.1 Neither the Borrower nor the TOO Group taken as a whole is unable, or admits or has admitted its inability, to pay its debts or has suspended making payments in respect of any of its debts.

11.10.2 Neither the Borrower nor the TOO Group taken as a whole has by reason of actual or anticipated financial difficulties, commenced, or intends to commence, negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness.

11.10.3 The value of the assets of each of the Borrower and the TOO Group taken as a whole is not less than the liabilities of the Borrower or the TOO Group taken as a whole (as the case may be) (taking into account contingent and prospective liabilities).

11.10.4 No moratorium has been, or may, in the reasonably foreseeable future be, declared in respect of any indebtedness of the Borrower or of the TOO Group taken as a whole.

11.11 **No Material Defaults**

11.11.1 Without prejudice to Clause 11.11.2, the Borrower is not in breach of or in default under any agreement to which it is a party or which is binding on it or any of its assets to an extent or in a manner which might have a Material Adverse Effect on the business or financial condition of the Group taken as a whole.

11.11.2 No Event of Default is continuing or might reasonably be expected to result from the advance of the Loan.

11.12 **No Material Proceedings** No litigation, arbitration or administrative proceeding of or before any court, arbitral body or agency against any member of the Group has been started or, to its knowledge, threatened, which have or, if adversely determined, are reasonably likely to have a Material Adverse Effect or which is not covered by adequate insurance.

11.13 **No Obligation to Create Security** The execution of the Finance Documents by the Security Parties and their exercise of their rights and performance of their obligations thereunder will not result in the existence of nor oblige the Borrower to create any Encumbrance (other than a Permitted Encumbrance) over all or any of their present or future revenues or assets, other than pursuant to the Security Documents.

11.14 **No Breach** The execution of the Finance Documents by each of the Security Parties and their exercise of their rights and performance of their obligations under any of the Finance Documents do not constitute and will not result in any breach of any agreement or treaty to which any of them is a party.

11.15 **Security** Each of the Security Parties is the legal and beneficial owner of all assets and other property which it purports to charge, mortgage, pledge, assign or otherwise secure pursuant to each Security Document and those Security Documents to which it is a party create and give rise to valid and effective security having the ranking expressed in those Security Documents.

11.16 **Necessary Authorisations** The Necessary Authorisations required by each Security Party are in full force and effect, and each Security Party is in compliance with the material provisions of each such Necessary Authorisation relating to it and, to the best of its knowledge, none of the Necessary Authorisations relating to it are the subject of any pending or threatened proceedings or revocation.

11.17 **Money Laundering** Any amount borrowed hereunder, and the performance of the obligations of the Security Parties under the Finance Documents, will be for the account of members of the Group and will not involve any breach by any of them of any law or regulatory measure relating to “money laundering” as defined in Article 1 of the Directive (2005/60/EEC) of the Council of the European Communities or article 305 bis of the Swiss Penal Code.

11.18 **Disclosure of material facts** The Borrower is not aware of any material facts or circumstances which have not been disclosed to the Agent and which might, if disclosed, have reasonably been expected to adversely affect the decision of a person considering whether or not to make loan facilities of the nature contemplated by this Agreement available to the Borrower.

11.19 **Use of Facility** The Facility will be used for the purposes specified in the Recital.

11.20 **Representations Limited** The representation and warranties of the Borrower in this Clause 11 are subject to:

11.20.1 the principle that equitable remedies are remedies which may be granted or refused at the discretion of the court;

11.20.2 the limitation of enforcement by laws relating to bankruptcy, insolvency, liquidation, reorganisation, court schemes, moratoria, administration and other laws generally affecting or limiting the rights of creditors;

11.20.3 the time barring of claims under any applicable limitation acts;

11.20.4 the possibility that a court may strike out provisions for a contract as being invalid for reasons of oppression, undue influence or similar; and

11.20.5 any other reservations or qualifications of law expressed in any legal opinions obtained by the Agent in connection with the Facility.

12 Undertakings and Covenants

The undertakings and covenants in this Clause 12 remain in force for the duration of the Facility Period.

12.1 General Undertakings

12.1.1 **Financial statements** The Borrower shall supply to the Agent as soon as the same become available, but in any event within one hundred and eighty (180) days after the end of each of the Borrower’s financial years, the unaudited financial statements of the Borrower for that financial year, signed by a duly authorised representative of the Borrower, and related cashflows.

12.1.2 **Maintenance of Legal Validity** The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents required in or by the laws and regulations of its jurisdiction of formation and all other applicable jurisdictions, to enable it lawfully to enter into and perform its obligations under the Finance Documents and to ensure the legality, validity, enforceability or admissibility in evidence of the Finance Documents in its jurisdiction of incorporation or organisation and all other applicable jurisdictions.

12.1.3 **Notification of Default** The Borrower shall promptly, upon becoming aware of the same, inform the Agent in writing of the occurrence of any Event of Default and, upon receipt of a written request to that effect from the Agent, confirm to the Agent that, save as previously notified to the Agent or as notified in such confirmation, no Event of Default has occurred.

12.1.4 **Charter notifications** The Borrower shall promptly, upon becoming aware of the same, inform the Agent in writing if: (i) the Operator gives notice to terminate the Charter Contract; (ii) if hire payable under the Charter Contract has not been paid for more than thirty days; or (iii) if hire payable under the Charter Contract is wrongfully withheld, in whole or in part, on three consecutive occasions.

12.1.5 **Other notifications** The Borrower shall promptly, upon becoming aware of the same, inform the Agent in writing of any Environmental Claim, any change in its financial position that is likely to have a Material Adverse Effect, and of any breach (other than one which has no material consequence) of a Project Agreement or any other material contract entered into from time to time relating to the Vessel.

12.1.6 **Claims Pari Passu** The Borrower shall ensure that at all times the claims of the Finance Parties against it under the Finance Documents rank at least pari passu with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation, winding-up or other similar laws of general application.

12.1.7 **Management of Vessel** The Borrower shall ensure that the Vessel is at all times technically and commercially managed by the Piranema Manager (or by an approved Manager) in accordance with good industry standards.

12.1.8 **Classification** The Borrower shall ensure that the Vessel maintains the highest classification available for the purpose of the relevant trade of the Vessel which shall be with a Pre-Approved Classification Society free from any overdue recommendations and conditions affecting the Vessel's class and the Borrower shall not change the class certification of the Vessel without the Majority Lenders' prior written consent (such consent not to be unreasonably withheld).

12.1.9 **Operator** The Borrower shall ensure that the only entity operating the Vessel shall be either (i) the Bareboat Charterer; or (ii) another wholly owned Subsidiary of Teekay or TOO; or (iii) the Piranema Manager; or (iv) any other company approved by the Majority Lenders.

12.1.10 **Capex** the Agent acknowledges and agrees that the Borrower may incur up to seven million five hundred thousand Dollars ($7,500,000) of capex per annum, following which the Borrower shall not incur any additional capex unless such excess capex is funded only by further equity or debt provided to the Borrower in accordance with the terms of Clause 12.1.25(a).

12.1.11 **Negative Pledge** The Borrower shall not create, or permit to subsist, any Encumbrance (other than pursuant to the Security Documents) over all or any part of its assets (including but not limited to the Vessel and the Insurances) other than a Permitted Encumbrance.

12.1.12 **Registration** The Borrower shall not for the duration of the Facility Period change or permit a change to the flag of the Vessel other than to a Pre-Approved Flag or under such other flag as may be approved by the Agent acting on the instructions of the Majority Lenders, such approval not to be unreasonably withheld or delayed.

12.1.13 **ISM and ISPS Compliance** The Borrower shall comply in all material respects with the ISM Code and the ISPS Code or any replacements thereof and in particular (without prejudice to the generality of the foregoing) shall procure that the Manager holds (i) a valid and current Document of Compliance issued pursuant to the ISM Code, (ii) a valid and current SMC issued in respect of the Vessel pursuant to the ISM Code, and (iii) an ISSC in respect of the Vessel, and the Borrower shall promptly, upon request, supply the Agent with copies of the same.

12.1.14 **Necessary Authorisations** Without prejudice to Clause 12.1.8 or any other specific provision of the Security Documents relating to an Authorisation, the Borrower shall (i) obtain, comply with and do all that is necessary to maintain in full force and effect all Necessary Authorisations if a failure to do the same may cause a Material Adverse Effect; and (ii) promptly upon request, supply certified copies to the Agent of all Necessary Authorisations.

12.1.15 **Compliance with Applicable Laws** The Borrower shall comply with all applicable laws to which it may be subject if a failure to do the same may, in the opinion of the Agent, have a Material Adverse Effect.

12.1.16 **Compliance with Environmental Laws** The Borrower shall comply with, and shall ensure that any Manager controlled by TOO or Teekay complies with, all Environmental Laws.

12.1.17 **Performance of Obligations** The Borrower shall comply with the material provisions of all agreements in relation to the Vessel.

12.1.18 **Further Assurance** The Borrower shall, at its own expense, promptly take all such action as the Agent may reasonably require for the purpose of perfecting or protecting any Finance Party's rights with respect to the security created or evidenced (or intended to be created or evidenced) by the Security Documents.

12.1.19 **Other information** The Borrower will promptly supply to the Agent such information and explanations as the Majority Lenders may from time to time reasonably require in connection with the operation of the Vessel and any financial information reasonably requested in connection with the Borrower, and will procure that the Agent be given the like information and explanations relating to all other Security Parties.

12.1.20 **Inspection of records** The Borrower will permit the inspection of its financial records and accounts following an Event of Default which is continuing unremedied or unwaived from time to time during business hours by the Agent or its nominee.

12.1.21 **Insurance** The Borrower shall ensure at its own expense throughout the Facility Period that the Vessel is insured and operated in accordance with the provisions set out in the relevant Security Documents.

12.1.22 **Change of Business** Except as expressly permitted in the Security Documents the Borrower shall not carry on any business, other than that of owning, chartering and operating the Vessel and holding a 100% interest in the Bareboat Charterer and holding an interest of not less than 99.99% in the Piranema Manager.

12.1.23 **No disposal of assets** The Borrower shall not dispose of any of its material assets other than a sale of the Vessel which complies with Clause 6.4.

12.1.24 **"Know your customer" checks** If:

(a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;

(b) any change in the status of the Borrower after the date of this Agreement; or

(c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Agent or any Lender (or, in the case of (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself or on behalf of any Lender) or any Lender for itself (or, in the case of (c) above, on behalf of any prospective new Lender) in order for the Agent or that Lender (or, in the case of (c) above, any prospective new Lender) to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

12.1.25 **Intercompany borrowings** The Borrower may only borrow:

(a) from members of the Teekay Group or TOO Group on a subordinated and unsecured basis; and

(b) from other parties in the ordinary course of its business and in an aggregate amount of no more than ten million Dollars (US$10,000,000),

provided always that no Event of Default has occurred and is continuing.

12.1.26 **Enforcement of Obligations** The Borrower shall take all reasonable steps to enforce its rights under the Bareboat Charter and any other agreements relating to the Vessel.

12.1.27 **No dividends** The Borrower shall not pay dividends or make other distributions to shareholders:

(a) whilst an Event of Default has occurred and is continuing unremedied and unwaived; or

(b) following breach of any of the covenants contained in this Clause 12 or in Clause 8 of a Guarantee.

12.1.28 **No Merger** The Borrower shall not merge with any other entity, split up or materially divest without the prior written consent of the Agent (acting on the instructions of the Majority Lenders).

12.1.29 **No Material Amendment to Project Agreements** The Borrower shall not agree to any material amendment or termination of any of the Project Agreements to which it is a party without the prior written consent of the Majority Lenders (such consent not to be unreasonably withheld).

12.1.30 **Ownership** The Borrower shall procure that its legal and beneficial ownership remains wholly owned by TOO.

12.1.31 **Restricted Persons** The Borrower understands that the Finance Parties are prohibited to conclude transactions or finance transactions with any persons, entities or any other parties (hereinafter collectively referred to as “Restricted Persons”) (i) subject to any economic and trade sanctions administrated by the United Nations (“UN”), the European Union (“EU”), the state Secretariat for Economic Affairs (“SECO”) of Switzerland and the United States Treasury Department’s Office of Foreign Assets Control (“OFAC”), (ii) owned or controlled by entities or any other parties as defined in (i) hereinbefore.

The Borrower confirms that based on appropriate due diligence they shall not “knowingly” transfer or provide the benefits of any money, proceeds or services provided by or received from the Lenders to such Restricted Persons or conduct any business activity prohibited by one of the sanctions programs mentioned hereinbefore such as entering into any ship acquisition agreement, any ship refinancing agreement and/or any charter agreement related to a vessel, project, asset or otherwise for which money, proceeds or services have been received from the Lenders.

13 Events of Default

13.1 **Events of Default** Each of the events or circumstances set out in this Clause 13.1 is an Event of Default.

13.1.1 **Failure to Pay** Any Security Party fails to pay any amount due from it under a Finance Document or a Master Agreement at the time, in the currency and otherwise in the manner specified herein or therein provided that, if the relevant Security Party can demonstrate to the reasonable satisfaction of the Agent that all necessary instructions were given to effect such payment and the non-receipt thereof is attributable solely to an error in the banking system, such payment shall instead be deemed to be due, solely for the purposes of this paragraph, within three (3) Business Days of the date on which it actually fell due under the relevant Finance Document or Master Agreement; or

13.1.2 **Misrepresentation** Any representation or statement made by any Security Party in any Finance Document to which it is a party or in any notice or other document, certificate or statement delivered by it pursuant thereto or in connection therewith is or proves to have been incorrect or misleading in any material respect, where the circumstances causing the same give rise to a Material Adverse Effect; or

13.1.3 **Specific Covenants** A Security Party fails duly to perform or comply with any of the obligations expressed to be assumed by or procured by the Borrower under Clauses 12.1.3, 12.1.7, 12.1.10 or 12.1.12; or

13.1.4 **Financial Covenants** There is any breach of the financial covenants set out in Clause 8.1 of each Guarantee remaining issued and unreleased; or

13.1.5 **Other Obligations** A Security Party fails duly to perform or comply with any of the obligations expressed to be assumed by it in any Finance Document (other than those referred to in Clause 13.1.3 or Clause 13.1.4) and such failure is not remedied within thirty (30) days of the earlier of (a) the Borrower becoming aware of such failure to perform or comply and (b) the Agent informing the Borrower in writing of such failure to perform or comply; or

13.1.6 **Cross Default** Any indebtedness of any Security Party is not paid when due (or within any applicable grace period) or any indebtedness of any Security Party is declared to be or otherwise becomes due and payable prior to its specified maturity where (in either case) the aggregate of all such unpaid or accelerated indebtedness (i) of the Borrower or the Bareboat Charter is equal to or greater than ten million Dollars ($10,000,000) or its equivalent in any other currency; or (ii) of Teekay or any of its Subsidiaries, is equal to or greater than one hundred million Dollars ($100,000,000) or its equivalent in any other currency; or (iii) of TOO or any of its Subsidiaries, is equal to or greater than fifty million Dollars (US$50,000,000) or its equivalent in any other currency; or

13.1.7 **Insolvency and Rescheduling** A Security Party is unable to pay its debts as they fall due, commences negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of its creditors or a composition with its creditors unless:

(a) in respect of the Bareboat Charterer, if it has been replaced by another reasonably acceptable charterer within 6 months of insolvency; or

(b) in respect of TOO, Teekay increases the Teekay Guarantee to cover 100% of the Indebtedness within 30 days of any TOO insolvency.

13.1.8 **Winding-up** A Security Party takes any corporate action or other steps are taken or legal proceedings are started for its winding-up, dissolution, administration or re-organisation or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its revenues or assets or any moratorium is declared or sought in respect of any of its indebtedness unless the Agent is satisfied, acting reasonably, that such actions, steps or proceedings are frivolous or vexatious and are being contested appropriately by the relevant Security Party; or

13.1.9 **Execution or Distress**

(a) Any Security Party fails to comply with or pay any sum due from it (within 30 days of such amount falling due) under any final judgment or any final order made or given by any court or other official body of a competent jurisdiction, subject to the amount due being in an aggregate (i) for Teekay or any of its Subsidiaries, of equal to or greater than one hundred million Dollars ($100,000,000) or its equivalent in any other currency, and for the Borrower of equal to or greater than ten million Dollars ($10,000,000) or its equivalent in any other currency; or (ii) for TOO or any of its Subsidiaries (other than the Borrower), of equal to or greater than fifty million Dollars (US$50,000,000) or its equivalent in any other currency, and for the Borrower of equal to or greater than ten million Dollars ($10,000,000) or its equivalent in any other currency, being a judgment or order against which there is no right of appeal or if a right of appeal exists, where the time limit for making such appeal has expired.

(b) Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any part of, the property, undertaking or assets of a Security Party, subject (other than in the case of the Borrower) to the amount in question being in an aggregate amount (i) for Teekay or any of its Subsidiaries, of equal to or greater than one hundred million Dollars ($100,000,000) or its equivalent in any other currency, and for the Borrower of equal to or greater than ten million Dollars ($10,000,000) or its equivalent in any other currency; or (ii) for TOO or any of its Subsidiaries (other than the Borrower), of equal to or greater than fifty million Dollars (US$50,000,000) or its equivalent in any other currency, and for the Borrower of equal to or greater than ten million Dollars ($10,000,000) or its equivalent in any other currency, other than any execution or distress which is being contested in good faith and which is either discharged within 30 days or in respect of which adequate security has been provided within 30 days to the relevant court or other authority to enable the relevant execution or distress to be lifted or released.

(c) Notwithstanding the foregoing paragraphs of this Clause 13.1.9, any levy of any distress on or any arrest, condemnation, confiscation, requisition for title or use, compulsory acquisition, seizure, detention or forfeiture of the Vessel (or any part thereof) or any exercise or purported exercise of any lien or claim on or against the Vessel where the release of or discharge of the lien or claim on or against the Vessel has not been procured within 30 days; or

13.1.10 **Similar Event** Any event occurs which, under the laws of any jurisdiction, has a similar or analogous effect to any of those events mentioned in Clauses 13.1.7, 13.1.8 and 13.1.9; or

13.1.11 **Insurances** Insurance is not maintained in respect of the Vessel in accordance with the terms of the Security Documents; or

13.1.12 **Class** The Vessel has its classification withdrawn by the relevant classification society PROVIDED THAT if such withdrawal is (in the opinion of the Agent in its absolute discretion) capable of remedy such Event of Default shall only occur if the Vessel's classification is not reinstated to the satisfaction of the Agent within twenty one (21) days; or

13.1.13 **Environmental Matters**

(a) Any Environmental Claim is pending or made against the Borrower or the Bareboat Charterer or the Operator or a Manager or any of their Environmental Affiliates or in connection with the Vessel, where such Environmental Claim has a Material Adverse Effect; or

(b) Any actual Environmental Incident occurs in connection with the Vessel, where such Environmental Incident has a Material Adverse Effect; or

13.1.14 **Repudiation** Any Security Party repudiates any Finance Document or Project Agreement to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate any such Finance Document or Project Agreement; or

13.1.15 **Validity and Admissibility** At any time any act, condition or thing required to be done, fulfilled or performed in order:

(a) to enable any Security Party lawfully to enter into, exercise its rights under and perform the respective obligations expressed to be assumed by it in the Finance Documents;

(b) to ensure that the obligations expressed to be assumed by each of the Security Parties in the Finance Documents are legal, valid and binding; or

(c) to make the Finance Documents admissible in evidence in any applicable jurisdiction

is not done, fulfilled or performed within 30 days after notification from the Agent to the relevant Security Party requiring the same to be done, fulfilled or performed; or

13.1.16 **Illegality** At any time it is or becomes unlawful for any Security Party to perform or comply with any or all of its obligations under the Finance Documents to which it is a party or for the Operator to perform its obligations under the Quiet Enjoyment Letter (if any) or any of the obligations of the Borrower hereunder are not or cease to be legal, valid and binding and such illegality is not remedied or mitigated to the satisfaction of the Agent within thirty (30) days after written notification from the Agent; or

13.1.17 **Material Adverse Change** At any time there shall occur a change in the business or operations of a Security Party or a change in the financial condition of any Security Party which, in the reasonable opinion of the Majority Lenders, materially impairs such Security Party's ability to discharge its obligations under the Finance Documents in the manner provided therein and such change, if capable of remedy, is not so remedied within 30 days of written notification from the Agent; or

13.1.18 **Qualifications of Financial Statements** The auditors of the relevant Group qualify their report on any audited consolidated financial statements of such Group in any regard which, in the reasonable opinion of the Agent, has a Material Adverse Effect; or

13.1.19 **Conditions Subsequent** if any of the conditions set out in Clause 3.4 is not satisfied within thirty (30) days (or such longer period as may be specified in Schedule 2, Part II) of the Drawdown Date, or such other time period specified by the Agent acting on the instructions of the Majority Lenders; or

13.1.20 **Revocation or Modification of consents etc.** if any Necessary Authorisation which is now or which at any time during the Facility Period becomes necessary to enable any of the Security Parties to comply with any of their obligations in or pursuant to any of the Security Documents is revoked, withdrawn or withheld, or modified in a manner which the Agent reasonably considers is, or may be, prejudicial to the interests of a Finance Party in a material manner, or if such Necessary Authorisation ceases to remain in full force and effect; or

13.1.21 **Curtailment of Business** if the business of any of the Security Parties is wholly or materially curtailed by any intervention by or under authority of any government, or if all or a substantial part of the undertaking, property or assets of any of the Security Parties is seized, nationalised, expropriated or compulsorily acquired by or under authority of any government or any Security Party disposes or threatens to dispose of a substantial part of its business or assets; or

13.1.22 **Reduction of Capital** if the Borrower reduces its committed or subscribed capital; or

13.1.23 **Challenge to Registration** if the registration of the Vessel or the Mortgage becomes void or voidable or liable to cancellation or termination; or

13.1.24 **War** if the country of registration of the Vessel becomes involved in war (whether or not declared) or civil war or is occupied by any other power and the Agent reasonably considers that, as a result, the security conferred by the Security Documents is materially prejudiced; or

13.1.25 **Notice of Determination** if a Guarantor gives notice to the Agent to determine its obligations under the relevant Guarantee; or

13.1.26 **Abandonment of the Vessel** if the Vessel is abandoned; or

13.1.27 **Termination or material breach** If:

(a) any of the Project Agreements is terminated by the Operator or any of its Affiliates by reason of breach by a Security Party unless, in the case of the Charter Contract, the Vessel has been employed on another charter on terms reasonably acceptable to the Majority Lenders within one hundred and eighty (180) days of such termination; or

(b) any of the Project Agreements is breached by a Security Party in a manner that gives rise to a right to terminate such Project Agreement or treat it as repudiated by the Operator or any of its Affiliates; or

13.2 **Acceleration** If an Event of Default is continuing unremedied and unwaived the Agent may, and shall (at the request of the Majority Lenders), by notice to the Borrower cancel any part of the Maximum Amount not then advanced and:

13.2.1 declare that the Loan, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents are immediately due and payable, whereupon they shall become immediately due and payable; and/or

13.2.2 declare that the Loan is payable on demand, whereupon it shall immediately become payable on demand by the Agent; and/or

13.2.3 declare the Commitments terminated and the Maximum Amount reduced to zero; and/or

13.2.4 exercise all of its rights under the Finance Documents.

14 Assignment and Sub-Participation

14.1 **Lenders' rights** A Lender may assign any of its rights under this Agreement or transfer by novation any of its rights and obligations under this Agreement

(i) to any other branch or Affiliate of that Lender or any other Lender; or

(ii) (subject to the prior written consent of the Borrower, such consent not to be unreasonably withheld and to be deemed to be given unless notice to the contrary is received within five (5) Business Days of the request being given, but not to be required at any time after an Event of Default which is continuing unremedied or unwaived or if the assignment is in favour of a central bank or federal reserve) to any other bank or financial institution,

and may grant sub-participations in all or any part of its Commitment PROVIDED ALWAYS that any assignment or transfer under this Clause 14 shall not result in any increased costs to the Borrower or the Lenders at the date of and as a consequence of such assignment or transfer.

14.2 **Borrower's co-operation** The Borrower will co-operate fully with a Lender in connection with any assignment, transfer or sub-participation by that Lender; will execute and procure the execution of such documents as that Lender may require in that connection; and irrevocably authorises any Finance Party to disclose to any proposed assignee, transferee or sub-participant (whether before or after any assignment, transfer or sub-participation and whether or not any assignment, transfer or sub-participation shall take place) all information relating to the Security Parties, the Loan, the Relevant Documents and the Vessel which any Finance Party may in its discretion consider necessary or desirable (subject to any duties of confidentiality applicable to the Lenders generally). Additionally, (but subject to the same duties of confidentiality), any Lender may disclose the size and term of the Facility and the names of each Security Party to any lawyers, insurers, investor or potential investor in a securitisation (or similar transaction of broadly equivalent economic effect) of that Lender's rights and obligations under the Finance Documents.

14.3 **Rights of assignee** Any assignee of a Lender shall (unless limited by the express terms of the assignment) take the full benefit of every provision of the Finance Documents benefitting that Lender PROVIDED THAT an assignment will only be effective on notification by the Agent to that Lender and the assignee that the Agent is satisfied it has complied with all necessary "Know your customer" or other similar checks under all applicable laws and regulations in relation to the assignment to the assignee.

14.4 In addition to the other rights provided to the Lenders under this Clause 14, each Lender may without consulting with or obtaining consent from the Borrower, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation, any charge, assignment or other security to secure obligations to a federal reserve or central bank except that no such charge, assignment or security shall:

(i) release a Lender from any of its obligations under the Finance Documents or (other than upon enforcement by the beneficiary of such charge, assignment or security) substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or

(ii) require any payments to be made by the Borrower or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

14.5 **Transfer Certificates** If a Lender wishes to transfer any of its rights and obligations under or pursuant to this Agreement, it may do so by delivering to the Agent a duly completed Transfer Certificate, in which event on the Transfer Date:

14.5.1 to the extent that Lender seeks to transfer its rights and obligations, the Borrower (on the one hand) and that Lender (on the other) shall be released from all further obligations towards the other;

14.5.2 the Borrower (on the one hand) and the transferee (on the other) shall assume obligations towards the other identical to those released pursuant to Clause 14.5.1; and

14.5.3 the Agent, each of the Lenders and the transferee shall have the same rights and obligations between themselves as they would have had if the transferee had been an original party to this Agreement as a Lender

PROVIDED THAT the Agent shall only be obliged to execute a Transfer Certificate once:

(a) it is satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the transfer to the transferee; and

(b) the transferee has paid to the Agent for its own account a transfer fee of five thousand Dollars ($5,000).

The Agent is hereby authorised to sign any Transfer Certificate on behalf of each Finance Party and the Borrower and shall, as soon as reasonably practicable after it has executed a Transfer Certificate, send to the Borrower a copy of that Transfer Certificate.

14.6 **Finance Documents** Unless otherwise expressly provided in any Finance Document or otherwise expressly agreed between a Lender and any proposed transferee and notified by that Lender to the Agent on or before the relevant Transfer Date, there shall automatically be assigned to the transferee with any transfer of a Lender's rights and obligations under or pursuant to this Agreement the rights of that Lender under or pursuant to the Finance Documents (other than this Agreement) which relate to the portion of that Lender's rights and obligations transferred by the relevant Transfer Certificate.

14.7 **No assignment or transfer by the Borrower** The Borrower may not assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

14.8 **Disenfranchisement of Defaulting Lenders**

14.8.1 For so long as a Defaulting Lender has any Commitment undrawn or outstanding, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitment will be discounted.

14.8.2 For the purposes of this Clause 14.8, the Agent may assume that the following Lenders are Defaulting Lenders:

(a) any Lender which has notified the Agent that it has become a Defaulting Lender;

(b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (i), (ii) or (iii) of the definition of " **Defaulting Lender** " has occurred,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Agent) or the Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

14.9 **Replacement of a Defaulting Lender**

The Borrower may, at any time a Lender has become and continues to be a Defaulting Lender, by giving five (5) Business Days' prior written notice to the Agent and such Lender:

14.9.1 replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 14 all (and not part only) of its rights and obligations under this Agreement to a Lender or other bank or financial institution (a " **Replacement Lender** ") selected by the Borrower, and which is acceptable to the Agent (acting reasonably) and which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) or a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loan and all accrued interest, Break Costs and other amounts payable in relation thereto under the Finance Documents;

14.9.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause 14.9 shall be subject to the following conditions:

(a) the Borrower shall have no right to replace the Agent;

(b) neither the Agent nor the Defaulting Lender shall have any obligation to the Borrower to find a Replacement Lender;

(c) the transfer must take place no later than fifteen (15) Business Days after the notice referred to in the first paragraph of Clause 14.9; and

(d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents.

15 The Agent, the Security Agent and the Lenders

15.1 **Appointment**

15.1.1 Each Lender appoints the Agent to act as its agent under and in connection with the Finance Documents and each Lender and the Agent appoints the Security Agent to act as its security agent for the purpose of the Security Documents.

15.1.2 Each Lender authorises the Agent and each Lender and the Agent authorises the Security Agent to exercise the rights, powers, authorities and discretions specifically given to the Agent or the Security Agent (as the case may be) under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

15.1.3 Each Swap Provider appoints the Security Agent to act as its security agent for the purpose of the Security Documents and authorises the Security Agent to exercise the rights, powers, authorities and discretions specifically given to the Security Agent under or in connection with the Security Documents together with any other incidental rights, powers, authorities and discretions.

15.1.4 Except where the context otherwise requires, references in this Clause 15 to the " **Agent** " shall mean the Agent and the Security Agent individually and collectively.

15.2 **Authority** Each Lender irrevocably authorises the Security Agent (in the case of Clause 15.2.1) and the Agent (in the case of Clauses 15.2.2, 15.2.3 and 15.2.4) (in each case subject to Clauses 15.4 and 15.18):

15.2.1 to execute any Finance Document (other than this Agreement) on its behalf;

15.2.2 to collect, receive, release or pay any money on its behalf;

15.2.3 acting on the instructions from time to time of the Majority Lenders (save where the terms of any Finance Document expressly provide otherwise) to give or withhold any waivers, consents or approvals under or pursuant to any Finance Document; and

15.2.4 acting on the instructions from time to time of the Majority Lenders (save where the terms of any Finance Document expressly provide otherwise) to exercise, or refrain from exercising, any rights, powers, authorities or discretions under or pursuant to any Finance Document.

The Agent shall have no duties or responsibilities as agent or as security agent other than those expressly conferred on it by the Finance Documents and shall not be obliged to act on any instructions from the Lenders or the Majority Lenders if to do so would, in the opinion of the Agent, be contrary to any provision of the Finance Documents or to any law, or would expose the Agent to any actual or potential liability to any third party.

15.3 **Trust** The Security Agent agrees and declares, and each of the other Finance Parties acknowledges, that, subject to the terms and conditions of this Clause 15.3, the Security Agent holds the Trust Property on trust for the Finance Parties absolutely. Each of the other Finance Parties agrees that the obligations, rights and benefits vested in the Security Agent shall be performed and exercised in accordance with this Clause 15.3. The Security Agent shall have the benefit of all of the provisions of this Agreement benefiting it in its capacity as security agent for the Finance Parties, and all the powers and discretions conferred on trustees by the Trustee Act 1925 (to the extent not inconsistent with this Agreement). In addition:

15.3.1 the Security Agent and any attorney, agent or delegate of the Security Agent may indemnify itself or himself out of the Trust Property against all liabilities, costs, fees, damages, charges, losses and expenses sustained or incurred by it or him in relation to the taking or holding of any of the Trust Property or in connection with the exercise or purported exercise of the rights, trusts, powers and discretions vested in the Security Agent or any other such person by or pursuant to the Security Documents or in respect of anything else done or omitted to be done in any way relating to the Security Documents other than as a result of its gross negligence or wilful misconduct;

15.3.2 the other Finance Parties acknowledge that the Security Agent shall be under no obligation to insure any property nor to require any other person to insure any property and shall not be responsible for any loss which may be suffered by any person as a result of the lack or insufficiency of any insurance; and

15.3.3 the Finance Parties agree that the perpetuity period applicable to the trusts declared by this Agreement shall be the period of one hundred and twenty five (125) years from the date of this Agreement.

The provisions of Part 1 of the Trustee Act 2000 shall not apply to the Security Agent or the Trust Property.

15.4 **Limitations on authority** Except with the prior written consent of all the Lenders, the Agent shall not be entitled to:

15.4.1 release or vary any security given for the Borrower's obligations under this Agreement unless expressly contemplated by the Finance Documents; nor

15.4.2 waive the payment of any sum of money payable by any Security Party under the Finance Documents; nor

15.4.3 change the meaning of the expressions " **Majority Lenders** ", " **Margin** ", " **Commitment Fee** " or " **Default Rate** "; nor

15.4.4 exercise, or refrain from exercising, any right, power, authority or discretion, or give or withhold any consent, the exercise or giving of which is, by the terms of this Agreement, expressly reserved to the Lenders; nor

15.4.5 extend the due date for the payment of any sum of money payable by any Security Party under any Finance Document; nor

15.4.6 take or refrain from taking any step if the effect of such action or inaction may lead to the increase of the obligations of a Lender under any Finance Document; nor

15.4.7 agree to change the currency in which any sum is payable under any Finance Document (other than in accordance with the terms of the relevant Finance Document); nor

15.4.8 agree to amend this Clause 15.4 or any Clause that refers to a unanimous approval of all Lenders.

15.5 **Liability** Neither the Agent nor any of its directors, officers, employees or agents shall be liable to the Lenders for anything done or omitted to be done by the Agent under or in connection with any of the Relevant Documents unless as a result of the Agent's gross negligence or wilful misconduct.

15.6 **Acknowledgement** Each Lender acknowledges that:

15.6.1 it has not relied on any representation made by the Agent or any of the Agent's directors, officers, employees or agents or by any other person acting or purporting to act on behalf of the Agent to induce it to enter into any Finance Document;

15.6.2 it has made and will continue to make without reliance on the Agent, and based on such documents and other evidence as it considers appropriate, its own independent investigation of the financial condition and affairs of the Security Parties in connection with the making and continuation of the Loan;

15.6.3 it has made its own appraisal of the creditworthiness of the Security Parties; and

15.6.4 the Agent shall not have any duty or responsibility at any time to provide it with any credit or other information relating to any Security Party unless that information is received by the Agent pursuant to the express terms of a Finance Document.

Each Lender agrees that it will not assert nor seek to assert against any director, officer, employee or agent of the Agent or against any other person acting or purporting to act on behalf of the Agent any claim which it might have against them in respect of any of the matters referred to in this Clause 15.6.

15.7 **Limitations on responsibility** The Agent shall have no responsibility to any Security Party or to any Lender on account of:

15.7.1 the failure of a Lender or of any Security Party to perform any of its obligations under a Finance Document; nor

15.7.2 the financial condition of any Security Party; nor

15.7.3 the completeness or accuracy of any statements, representations or warranties made in or pursuant to any Finance Document, or in or pursuant to any document delivered pursuant to or in connection with any Finance Document; nor

15.7.4 the negotiation, execution, effectiveness, genuineness, validity, enforceability, admissibility in evidence or sufficiency of any Finance Document or of any document executed or delivered pursuant to or in connection with any Finance Document.

15.8 **The Agent's rights** The Agent may:

15.8.1 assume that all representations or warranties made or deemed repeated by any Security Party in or pursuant to any Finance Document are true and complete, unless, in its capacity as the Agent, it has acquired actual knowledge to the contrary;

15.8.2 assume that no Default has occurred unless, in its capacity as the Agent, it has acquired actual knowledge to the contrary;

15.8.3 rely on any document or notice believed by it to be genuine;

15.8.4 rely as to legal or other professional matters on opinions and statements of any legal or other professional advisers selected or approved by it;

15.8.5 rely as to any factual matters which might reasonably be expected to be within the knowledge of any Security Party on a certificate signed by or on behalf of that Security Party;

15.8.6 refrain from exercising any right, power, discretion or remedy unless and until instructed to exercise that right, power, discretion or remedy and as to the manner of its exercise by the Lenders (or, where applicable, by the Majority Lenders) and unless and until the Agent has received from the Lenders any payment which the Agent may require on account of, or any security which the Agent may require for, any costs, claims, expenses (including legal and other professional fees) and liabilities which it considers it may incur or sustain in complying with those instructions; and

15.8.7 disclose the identity of a Defaulting Lender to the other Finance Parties and the Borrower and shall disclose the same upon the written request of the Borrowers or the Majority Lenders.

15.9 **The Agent's duties** The Agent shall:

15.9.1 if requested in writing to do so by a Lender, make enquiry and advise the Lenders as to the performance or observance of any of the provisions of any Finance Document by any Security Party or as to the existence of an Event of Default; and

15.9.2 inform the Lenders promptly of any Event of Default of which the Agent has actual knowledge.

15.10 **No deemed knowledge** The Agent shall not be deemed to have actual knowledge of the falsehood or incompleteness of any representation or warranty made or deemed repeated by any Security Party or actual knowledge of the occurrence of any Default unless a Lender or a Security Party shall have given written notice thereof to the Agent in its capacity as the Agent. Any information acquired by the Agent other than specifically in its capacity as the Agent shall not be deemed to be information acquired by the Agent in its capacity as the Agent.

15.11 **Other business** The Agent may, without any liability to account to the Lenders, generally engage in any kind of banking or trust business with a Security Party or with a Security Party's subsidiaries or associated companies or with a Lender as if it were not the Agent.

15.12 **Indemnity** The Lenders shall, promptly on the Agent's request, reimburse the Agent in their respective Proportionate Shares, for, and keep the Agent fully indemnified in respect of all liabilities, damages, costs and claims sustained or incurred by the Agent in connection with the Finance Documents, or the performance of its duties and obligations, or the exercise of its rights, powers, discretions or remedies under or pursuant to any Finance Document, to the extent not paid by the Security Parties and not arising solely from the Agent's gross negligence or wilful misconduct.

15.13 **Employment of agents** In performing its duties and exercising its rights, powers, discretions and remedies under or pursuant to the Finance Documents, the Agent shall be entitled to employ and pay agents to do anything which the Agent is empowered to do under or pursuant to the Finance Documents (including the receipt of money and documents and the payment of money) and to act or refrain from taking action in reliance on the opinion of, or advice or information obtained from, any lawyer, banker, broker, accountant, valuer or any other person believed by the Agent in good faith to be competent to give such opinion, advice or information.

15.14 **Distribution of payments** The Agent shall pay promptly to the order of each Lender that Lender's Proportionate Share of every sum of money received by the

Agent pursuant to the Finance Documents (with the exception of any amounts payable pursuant to Clause 9 and/or any Fee Letter and any amounts which, by the terms of the Finance Documents, are paid to the Agent for the account of the Agent alone or specifically for the account of one or more Lenders) and until so paid such amount shall be held by the Agent on trust absolutely for that Lender.

15.15 **Reimbursement** The Agent shall have no liability to pay any sum to a Lender until it has itself received payment of that sum. If, however, the Agent does pay any sum to a Lender on account of any amount prospectively due to that Lender pursuant to Clause 15.14 before it has itself received payment of that amount, and the Agent does not in fact receive payment within five (5) Business Days after the date on which that payment was required to be made by the terms of the Finance Documents, that Lender will, on demand by the Agent, refund to the Agent an amount equal to the amount received by it, together with an amount sufficient to reimburse the Agent for any amount which the Agent may certify that it has been required to pay by way of interest on money borrowed to fund the amount in question during the period beginning on the date on which that amount was required to be paid by the terms of the Finance Documents and ending on the date on which the Agent receives reimbursement.

15.16 **Redistribution of payments** Unless otherwise agreed between the Lenders and the Agent, if at any time a Lender receives or recovers by way of set-off, the exercise of any lien or otherwise from any Security Party, an amount greater than that Lender's Proportionate Share of any sum due from that Security Party to the Lenders under the Finance Documents (the amount of the excess being referred to in this Clause 15.16 and in Clause 15.17 as the " **Excess Amount** ") then:

15.16.1 that Lender shall promptly notify the Agent (which shall promptly notify each other Lender);

15.16.2 that Lender shall pay to the Agent an amount equal to the Excess Amount within ten (10) days of its receipt or recovery of the Excess Amount; and

15.16.3 the Agent shall treat that payment as if it were a payment by the Security Party in question on account of the sum due from that Security Party to the Lenders and shall account to the Lenders in respect of the Excess Amount in accordance with the provisions of this Clause 15.16.

However, if a Lender has commenced any legal proceedings to recover sums owing to it under the Finance Documents and, as a result of, or in connection with, those proceedings has received an Excess Amount, the Agent shall not distribute any of that Excess Amount to any other Lender which had been notified of the proceedings and had the legal right to, but did not, join those proceedings or commence and diligently prosecute separate proceedings to enforce its rights in the same or another court.

15.17 **Rescission of Excess Amount** If all or any part of any Excess Amount is rescinded or must otherwise be restored to any Security Party or to any other third party, the Lenders which have received any part of that Excess Amount by way of distribution from the Agent pursuant to Clause 15.16 shall repay to the Agent for the account of the Lender which originally received or recovered the Excess Amount, the amount which shall be necessary to ensure that the Lenders share rateably in accordance with their Proportionate Shares in the amount of the receipt or payment retained, together with interest on that amount at a rate equivalent to that (if any) paid by the Lender receiving or recovering the Excess Amount to the person to whom that Lender is liable to make payment in respect of such amount, and Clause 15.16.3 shall apply only to the retained amount.

15.18 **Instructions** Where the Agent is authorised or directed to act or refrain from acting in accordance with the instructions of the Lenders or of the Majority Lenders each of the Lenders shall provide the Agent with instructions within three (3) Business Days of the Agent's request (which request may be made orally or in writing). If a Lender does not provide the Agent with instructions within that period, that Lender shall be bound by the decision of the Agent. In the absence of instructions from the Lenders the Agent may act (or refrain from taking action) as it considers to be in the best interest of the Lenders. Nothing in this Clause 15.18 shall limit the right of the Agent to take, or refrain from taking, any action without obtaining the instructions of the Lenders or the Majority Lenders if the Agent in its discretion considers it necessary or appropriate to take, or refrain from taking, such action in order to preserve the rights of the Lenders under or in connection with the Finance Documents. In that event, the Agent will notify the Lenders of the action taken by it as soon as reasonably practicable, and the Lenders agree to ratify any action taken by the Agent pursuant to this Clause 15.18.

15.19 **Payments** All amounts payable to a Lender under this Clause 15 shall be paid to such account at such bank as that Lender may from time to time direct in writing to the Agent.

15.20 **“Know your customer” checks** Each Lender shall promptly upon the request of the Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself) in order for the Agent to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

15.21 **Resignation** Subject to a successor being appointed in accordance with this Clause 15.21, the Agent may resign as agent and/or the Security Agent may resign as security agent at any time without assigning any reason by giving to the Borrower and the Lenders notice of its intention to do so, in which event the following shall apply:

15.21.1 with the consent of the Borrower not to be unreasonably withheld (but such consent not to be required at any time after an Event of Default which is continuing unremedied or unwaived) the Lenders may within thirty (30) days after the date of the notice from the Agent or the Security Agent (as the case may be) appoint a successor to act as agent and/or security agent or, if they fail to do so with the consent of the Borrower, not to be unreasonably withheld (but such consent not to be required at any time after an Event of Default which is continuing unremedied or unwaived), the Agent or the Security Agent (as the case may be) may appoint any other bank or financial institution as its successor;

15.21.2 the resignation of the Agent or the Security Agent (as the case may be) shall take effect simultaneously with the appointment of its successor on written notice of that appointment being given to the Borrower and the Lenders;

15.21.3 the Agent or the Security Agent (as the case may be) shall thereupon be discharged from all further obligations as agent and/or security agent but shall remain entitled to the benefit of the provisions of this Clause 15; and

15.21.4 the successor of the Agent or the Security Agent (as the case may be) and each of the other parties to this Agreement shall have the same rights and obligations amongst themselves as they would have had if that successor had been a party to this Agreement.

15.22 **No fiduciary relationship** Except as provided in Clauses 15.3 and 15.14, the Agent shall not have any fiduciary relationship with or be deemed to be a trustee of or for any other person and nothing contained in any Finance Document shall constitute a partnership between any two or more Lenders or between the Agent and any other person.

15.23 **Defaulting Lender** If any Lender becomes a Defaulting Lender:

15.23.1 the Borrower may, at any time whilst the Lender continues to be a Defaulting Lender, give the Agent five (5) Business Days' notice of cancellation of the Commitment of that Lender;

15.23.2 On the notice referred to in paragraph 15.23.1 above becoming effective, the Commitment of the Defaulting Lender shall immediately be reduced to zero; and

15.23.3 The Agent shall as soon as practicable after receipt of a notice referred to in Clause 15.23.1 above, notify all the Lenders.

16 Set-Off

A Finance Party may set off any matured obligation due from the Borrower under any Finance Document (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, that Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off. The Borrower may not set off any obligations due to it from the Finance Parties from payments due from the Borrower pursuant to the Finance Documents.

17 Payments

17.1 **Payments** Each amount payable by the Borrower under a Finance Document shall be paid to such account at such bank as the Agent may from time to time direct to the Borrower in the Currency of Account and in such funds as are customary at the time for settlement of transactions in the relevant currency in the place of payment. Payment shall be deemed to have been received by the Agent on the date on which the Agent receives authenticated advice of receipt, unless that advice is received by the Agent on a day other than a Business Day or at a time of day (whether on a Business Day or not) when the Agent in its reasonable discretion considers that it is impossible or impracticable for the Agent to utilise the amount received for value that same day, in which event the payment in question shall be deemed to have been received by the Agent on the Business Day next following the date of receipt of advice by the Agent.

17.2 **No deductions or withholdings** Each payment (whether of principal or interest or otherwise) to be made by the Borrower under a Finance Document shall, subject only to Clause 17.3, be made free and clear of and without deduction for or on account of any Taxes or other deductions, withholdings, restrictions, conditions or counterclaims of any nature.

17.3 **Grossing-up** If at any time any law requires (or is interpreted to require) the Borrower to make any deduction or withholding from any payment, or to change the rate or manner in which any required deduction or withholding is made, the Borrower will promptly notify the Agent and, simultaneously with making that payment, will pay to the Agent whatever additional amount (after taking into account any additional Taxes on, or deductions or withholdings from, or restrictions or conditions on, that additional amount) is necessary to ensure that, after making the deduction or withholding, the relevant Finance Parties receive a net sum equal to the sum which they would have received had no deduction or withholding been made.

17.4 **Evidence of deductions** If at any time the Borrower is required by law to make any deduction or withholding from any payment to be made by it under a Finance Document, the Borrower will pay the amount required to be deducted or withheld to the relevant authority within the time allowed under the applicable law and will, no later than thirty (30) days after making that payment, deliver to the Agent an original receipt issued by the relevant authority, or other evidence reasonably acceptable to the Agent, evidencing the payment to that authority of all amounts required to be deducted or withheld.

17.5 **Rebate** If the Borrower pays any additional amount under Clause 17.3, and a Finance Party subsequently receives a refund or allowance from any tax authority which that Finance Party identifies as being referable to that increased amount so paid by the Borrower, that Finance Party shall, as soon as reasonably practicable, pay to the Borrower an amount equal to the amount of the refund or allowance received, if and to the extent that it may do so without prejudicing its right to retain that refund or allowance and without putting itself in any worse financial position than that in which it would have been had the relevant deduction or withholding not been required to have been made. Nothing in this Clause 17.5 shall be interpreted as imposing any obligation on any Finance Party to apply for any refund or allowance nor as restricting in any way the manner in which any Finance Party organises its tax affairs, nor as imposing on any Finance Party any obligation to disclose to the Borrower any information regarding its tax affairs or tax computations.

17.6 **Adjustment of due dates** If any payment or transfer of funds to be made under a Finance Document, other than a payment of interest on the Loan, shall be due on a day which is not a Business Day, that payment shall be made on the next succeeding Business Day (unless the next succeeding Business Day falls in the next calendar month in which event the payment shall be made on the next preceding Business Day). Any such variation of time shall be taken into account in computing any interest in respect of that payment.

17.7 **Control Account** The Agent shall (without further input required from the Borrower) open and maintain on its books a control account in the name of the Borrower showing the advance of the Loan and the computation and payment of interest and all other sums due under this Agreement. The Borrower’s obligations to repay the Loan and to pay interest and all other sums due under this Agreement shall be evidenced by the entries from time to time made in the control account opened and maintained under this Clause 17.7 by the Agent and those entries will, in the absence of manifest error, be conclusive and binding.

17.8 **Clawback** The Agent shall have no liability to pay any sum to the Borrower until it has itself received payment of that sum. If, however, the Agent does pay any sum to the Borrower on account of any amount prospectively due to the Borrower pursuant to Clause 4 before it has itself received payment of that amount, the

Borrower will, on demand by the Agent, refund to the Agent an amount equal to the sum so paid, together with an amount sufficient to reimburse the Agent for any interest which the Agent may certify that it has been required to pay on money borrowed to fund the sum in question during the period beginning on the date of payment and ending on the date on which the Agent receives reimbursement.

18 Notices

18.1 **Communications in writing** Any communication to be made under or in connection with this Agreement shall be made in writing and, unless otherwise stated, may be made by fax or letter or (subject to Clause 18.6) electronic mail.

18.2 **Addresses** The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each party to this Agreement for any communication or document to be made or delivered under or in connection with this Agreement are:

18.2.1 in the case of the Borrower, c/o Teekay Shipping (Canada) Ltd Suite 2000, Bentall 5, 550 Burrard Street, Vancouver, B.C., Canada V6C 2K2 (fax no: +1 604 681 3011) marked for the attention of Renee Eng, Treasury Manager;

18.2.2 in the case of each Lender, those appearing opposite its name in Schedule 1, Part 1; and

18.2.3 in the case of the Agent and the Security Agent, DNB BANK ASA, 200 Park Avenue, New York, NY10166, USA (fax no: +1 212 681 4123; email evan.uhlick@dnb.no);

or any substitute address, fax number, department or officer as any party may notify to the Agent (or the Agent may notify to the other parties, if a change is made by the Agent) by not less than five (5) Business Days' notice.

18.3 **Delivery** Any communication or document made or delivered by one party to this Agreement to another under or in connection this Agreement will only be effective:

18.3.1 if by way of fax, when received in legible form; or

18.3.2 if by way of letter, when it has been left at the relevant address or five (5) Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address; or

18.3.3 if by way of electronic mail, in accordance with Clause 18.6;

and, if a particular department or officer is specified as part of its address details provided under Clause 18.2, if addressed to that department or officer.

Any communication or document to be made or delivered to the Agent will be effective only when actually received by the Agent.

All notices from or to the Borrower shall be sent through the Agent.

18.4 **Notification of address and fax number** Promptly upon receipt of notification of an address, fax number or change of address, pursuant to Clause 18.2 or changing its own address or fax number, the Agent shall notify the other parties to this Agreement.

18.5 **English language** Any notice given under or in connection with this Agreement must be in English. All other documents provided under or in connection with this Agreement must be:

18.5.1 in English; or

18.5.2 if not in English, and if so required by the Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

18.6 **Electronic communication**

(a) Any communication to be made in connection with this Agreement may be made by electronic mail or other electronic means, if the Borrower and the relevant Finance Party:

(i) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;

(ii) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and

(iii) notify each other of any change to their address or any other such information supplied by them.

(b) Any electronic communication made between the Borrower and the relevant Finance Party will be effective only when actually received in readable form and acknowledged by the recipient (it being understood that any system generated responses do not constitute an acknowledgement) and in the case of any electronic communication made by the Borrower to a Finance Party only if it is addressed in such a manner as the Finance Party shall specify for this purpose.

19 Partial Invalidity

If, at any time, any provision of a Finance Document is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

20 Remedies and Waivers

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under a Finance Document shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

21 Miscellaneous

21.1 **No oral variations** No variation or amendment of a Finance Document shall be valid unless in writing and signed on behalf of all the Finance Parties and the relevant Security Party.

21.2 **Further Assurance** If any provision of a Finance Document shall be invalid or unenforceable in whole or in part by reason of any present or future law or any decision of any court, or if the documents at any time held by or on behalf of the Finance Parties or any of them are considered by the Lenders for any reason insufficient to carry out the terms of this Agreement, then from time to time the Borrower will promptly, on demand by the Agent, execute or procure the execution of such further documents as in the opinion of the Lenders are necessary to provide adequate security for the repayment of the Indebtedness.

21.3 **Rescission of payments etc.** Any discharge, release or reassignment by a Finance Party of any of the security constituted by, or any of the obligations of a Security Party contained in, a Finance Document shall be (and be deemed always to have been) void if any act (including, without limitation, any payment) as a result of which such discharge, release or reassignment was given or made is subsequently wholly or partially rescinded or avoided by operation of any law.

21.4 **Certificates** Any certificate or statement signed by an authorised signatory of the Agent purporting to show the amount of the Indebtedness (or any part of the Indebtedness) or any other amount referred to in any Finance Document shall, save for manifest error or on any question of law, be conclusive evidence as against the Borrower of that amount.

21.5 **Counterparts** This Agreement may be executed in any number of counterparts each of which shall be original but which shall together constitute the same instrument.

21.6 **Contracts (Rights of Third Parties) Act 1999** A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.

21.7 **Disclosure of Information** The Borrower authorises each Lender to disclose any information and/or document(s) concerning its relationship with such Lender (i) to authorities in any other countries where such Lender or any Affiliate is represented and/or where any Lender or any Affiliate may be requested information by any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law, (ii) to parties to whom that Lender charges, assigns or otherwise creates security (or may do so) pursuant to Clause 14.4, and (iii) to any Affiliate of that Lender making it possible to consolidate the member of the Group's total commitments and offer the member of the Group any other products offered by that Lender or any Affiliate, subject always to the duties of confidentiality on the Lenders set out herein.

22 Law and Jurisdiction

22.1 **Governing law** This Agreement and any non-contractual obligations arising from or in connection with it shall in all respects be governed by and interpreted in accordance with English law.

22.2 **Jurisdiction** For the exclusive benefit of the Finance Parties, the parties to this Agreement irrevocably agree that the courts of England are to have jurisdiction to settle any dispute;

(a) which may arise out of or in connection with this Agreement; or

(b) relating to any non-contractual obligations arising from or in connection with this Agreement,

and that any proceedings may be brought in those courts.

22.3 **Alternative jurisdictions** Nothing contained in this Clause 22 shall limit the right of the Finance Parties to commence any proceedings against the Borrower in any other court of competent jurisdiction nor shall the commencement of any proceedings against the Borrower in one or more jurisdictions preclude the commencement of any proceedings in any other jurisdiction, whether concurrently or not.

22.4 **Waiver of objections** The Borrower irrevocably waives any objection which it may now or in the future have to the laying of the venue of any proceedings in any court referred to in this Clause 22, and any claim that those proceedings have been brought in an inconvenient or inappropriate forum, and irrevocably agrees that a judgment in any proceedings commenced in any such court shall be conclusive and binding on it and may be enforced in the courts of any other jurisdiction.

22.5 **Service of process** Without prejudice to any other mode of service allowed under any relevant law, the Borrower:

22.5.1 irrevocably appoints Teekay Shipping (UK) Ltd of 2nd Floor, 86 Jermyn Street, London SW1Y 6JD England as its agent for service of process in relation to any proceedings before the English courts in connection with this Agreement; and

22.5.2 agrees that failure by a process agent to notify the Borrower of the process will not invalidate the proceedings concerned.

SCHEDULE 1:

Part I: The Lenders and the Commitments

The Lenders	The Commitments (US$)	The Proportionate Share (%)
Nordea Bank Finland plc 437 Madison Avenue New York NY 10022 USA Attention: Henning Lyche Christiansen Fax: +1 212 421 4420 Email: henning.christiansen@nordea.com cc: Attention: Christian David Christensen Fax: +1 212 421 4420 Email: christian.christensen@nordea.com	27,500,000	21.2
DNB Bank ASA 200 Park Avenue New York NY 10166 USA Attention: Evan Uhlick Fax: +1 212 681 4123 Email: evan.uhlick@dnb.no	27,500,000	21.2
Royal Bank of Canada Suite 3900, Bankers Hall West 888 – 3 rd Street SW Calgary, Alberta T2P 5C5 Canada Attention: Tim VandeGriend Fax: +1 403 292 3234 Email: tim.vandegriend@rbccm.com	25,000,000	19.2
Credit Suisse AG St. Alban-Graben 1-3 P.O. Box 4002 Basel Switzerland Attention: Gianrichy Giamboi Fax: +41 61 266 79 39 Email:gianrichy.giamboi@credit-suisse.com	25,000,000	19.2

Skandinaviska Enskilda Banken AB P.O. Box 1843 Vika N-0123 Oslo Norway Attention: Anne Geelmuyden Fax:+47 22 82 71 31 Email: anne.geelmuyden@seb.no	25,000,000	19.2

Part II: The Swap Providers

Nordea Bank Finland plc
437 Madison Avenue
New York
NY 10022
USA

Attention: Henning Lyche Christiansen
Fax: +1 212 421 4420
Email: henning.christiansen@nordea.com

cc:

Attention: Christian David Christensen
Fax: +1 212 421 4420
Email: christian.christensen@nordea.com

The MLAs

Nordea Bank Finland plc
437 Madison Avenue
New York
NY 10022
USA

Attention: Henning Lyche Christiansen
Fax: +1 212 421 4420
Email: henning.christiansen@nordea.com

cc:

Attention: Christian David Christensen
Fax: +1 212 421 4420
Email: christian.christensen@nordea.com

DNB Bank ASA
200 Park Avenue
New York
NY 10166
USA

Attention: Evan Uhlick
Fax: +1 212 681 4123
Email: evan.uhlick@dnb.no

The Bookrunners

DNB Markets Inc.
200 Park Avenue
31st Floor
New York
N.Y. 10166-0396
USA

Nordea Bank Finland plc
437 Madison Avenue
New York
NY 10022
USA

Attention: Henning Lyche Christiansen
Fax: +1 212 421 4420
Email: henning.christiansen@nordea.com

cc:

Attention: Christian David Christensen
Fax: +1 212 421 4420
Email: christian.christensen@nordea.com

Part V: The Lead Arrangers

Credit Suisse AG
St. Alban-Graben 1-3
P.O. Box
4002 Basel
Switzerland

Attention: Gianrichy Giamboi
Fax: +41 61 266 79 39
Email: gianrichy.giamboi@credit-suisse.com

Royal Bank of Canada
Suite 3900, Bankers Hall West
888 – 3 rd Street SW
Calgary, Alberta T2P 5C5
Canada

Attention: Tim VandeGriend
Fax: +1 403 292 3234
Email: tim.vandegriend@rbccm.com

Skandinaviska Enskilda Banken AB
P.O. Box 1843 Vika
N-0123 Oslo
Norway

Attention: Anne Geelmuyden
Fax: +47 22 82 71 31
Email: anne.geelmuyden@seb.no

SCHEDULE 2: Conditions Precedent and Subsequent

Part I: Conditions precedent to the Drawdown Date

1 Security Parties

(a) **Constitutional Documents** Copies of the constitutional documents of each relevant Security Party together with such other evidence as the Agent may reasonably require that each such Security Party is duly formed or incorporated in its country of formation or incorporation and remains in existence with power to enter into, and perform its obligations under, the Relevant Documents to which it is or is to become a party.

(b) **Certificates of good standing** A certificate of good standing in respect of each relevant Security Party (if such a certificate can be obtained).

(c) **Board resolutions** A copy of a resolution (or of an extract of a resolution) of the board of directors of each relevant Security Party (or its sole member or general partner):

(i) approving the terms of, and the transactions contemplated by, the Relevant Documents to which it is a party and ratifying or resolving that it execute those Relevant Documents; and

(ii) if required authorising a specified person or persons to execute those Relevant Documents (and all documents and notices to be signed and/or despatched under those documents) on its behalf.

(d) **Officer's certificates** A certificate of a duly authorised officer or representative of each relevant Security Party certifying that each copy document relating to it specified in this Part I of Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement and setting out the names of the directors and officers of that Security Party (or its sole member or general partner) and the proportion of shares held by each shareholder.

(e) **Powers of attorney** The notarially attested and legalised (where necessary for registration purposes) power of attorney of each relevant Security Party under which any documents are to be executed or transactions undertaken by that Security Party.

2 Security and related documents

(a) **Vessel documents** A photocopy, certified as true, accurate and complete by a duly authorised representative of the Borrower, of:

(i) the MOA;

(ii) the bill of sale transferring title in the Vessel to the Borrower free of all encumbrances, maritime liens or other debts;

(iii) the protocol of delivery and acceptance evidencing the unconditional physical delivery of the Vessel by the Seller to the Borrower pursuant to the MOA;

(iv) the Project Agreements;

(v) any Management Agreement;

(vi) the Vessel's current SMC;

(vii) the ISM Company's current DOC;

(viii) the Vessel's current ISSC;

in each case together with all addenda, amendments or supplements.

(b) **Evidence of Borrower's title** Evidence that on the Drawdown Date (i) the Vessel will be at least provisionally registered under a Pre-Approved Flag in the ownership of the Borrower and the Mortgage will be capable of being registered against the Vessel with first priority.

(c) **Certificate of no Encumbrances** A certificate from the Borrower that the Vessel is free of Encumbrances other than Permitted Encumbrances.

(d) **Evidence of insurance** Evidence that the Vessel is insured in the manner required by the Security Documents and that letters of undertaking will be issued in the manner required by the Security Documents, together with the written approval of the Insurances by an insurance adviser appointed by the Agent.

(e) **Security Documents** The Security Documents (other than the Master Agreement Charge and the Account Charge) together with all other documents required by any of them, including, without limitation, all notices of assignment and/or charge and evidence that those notices will be duly acknowledged by the recipients.

(f) **Other Relevant Documents** Copies of each of the Relevant Documents not otherwise comprised in the documents listed in this Part I of Schedule 2.

3 Legal opinions

Legal opinions of the legal advisers addressed to the Agent (but permitting reliance by the Lenders) in each relevant jurisdiction, substantially in the form provided to the Agent prior to the Drawdown Date, or confirmation satisfactory to the Agent that such an opinion will be given, namely:

(a) an opinion on matters of English law from Stephenson Harwood;

(b) an opinion on matters of Marshall Islands law from Watson, Farley & Williams LLP;

(c) an opinion on matters of Norwegian law from Bugge Arentz-Hansen & Rasmussen; and

(d) an opinion on matters of Brazilian law from Souza, Cescon, Barrieu & Flesch Advogados.

4 Other documents and evidence

(a) **Drawdown Notice** A duly completed Drawdown Notice.

(b) **Process agent** Evidence that any process agent referred to in Clause 22.5 and any process agent appointed under any other Finance Document has accepted its appointment.

(c) **Other authorisations** A copy of any other consent, licence, approval, authorisation or other document, opinion or assurance which the Agent considers to be necessary or desirable (if it has notified the Borrower accordingly) in connection with the entry into and performance of the transactions contemplated by any of the Relevant Documents or for the validity and enforceability of any of the Relevant Documents.

(d) **Fees** Evidence that the fees, costs and expenses then due from the Borrower under Clause 8 and Clause 9 have been paid or will be paid by the Drawdown Date.

(e) **"Know your customer" documents** Such documentation and other evidence as is reasonably requested by the Agent in order for the Lenders to comply with all necessary "know your customer" or similar identification procedures in relation to the transactions contemplated in the Finance Documents.

(f) **Confirmation of class** Certificate of Confirmation of Class for hull and machinery confirming that the Vessel is classed with the highest class applicable to Vessel of her type with a Pre-Approved Classification Society.

5 Certificate of ownership

(a) A certificate from Teekay that it owns a minimum of fifty one per cent (51%) of the voting rights in Teekay Offshore GP L.L.C., the general partner in TOO.

(b) A certificate from Teekay Offshore GP L.L.C. that it owns a minimum of fifty one per cent (51%) of the general partner interests in TOO.

(c) A statement from TOO confirming its ownership of and voting rights for one hundred per cent (100%) of the share capital of the Borrower.

Part II: Conditions subsequent to the Drawdown Date

1 **Letters of undertaking** Letters of undertaking in respect of the Insurances as required by the Security Documents together with copies of the relevant policies or cover notes or entry certificates duly endorsed with the interest of the Finance Parties.

2 **Acknowledgements of notices** Acknowledgements of all notices of assignment and/or charge given pursuant to the Security Documents (other than the acknowledgement from the Operator referred to in Schedule 2, Part II, paragraph 4 and any acknowledgement required pursuant to the Account Charge).

3 **Legal opinions** Such of the legal opinions specified in Part I of this Schedule 2 as have not already been provided to the Agent, together with an opinion on Norwegian law matters from Bugge Arentz-Hansen & Rasmussen in respect of the Account Pledge, to be provided within thirty (30) calendar days of the Execution Date.

4 **Operator** (Within six calendar months of the Drawdown Date, or such longer period as the Agent may agree) the original Quiet Enjoyment Letter duly signed by the Operator (if so required by the Operator) together with an acknowledgement from the Operator to the notice of the Charterer's Assignment, containing such step-in provisions as may be reasonably required by the Agent.

5 **Evidence of Borrower's title** Certificate of ownership and encumbrance (or equivalent) issued by the Registrar of Ships (or equivalent official) of the relevant Pre-Approved Flag confirming that (a) the Vessel is permanently registered under that flag in the ownership of the Borrower, (b) the Mortgage has been registered with first priority against the Vessel and (c) there are no further Encumbrances registered against the Vessel.

6 **Account Charge** (Within 30 calendar days of the Execution Date, or such longer period as the Agent may agree) the original executed Account Charge, together with all documents required by it.

7 **Approvals** The Vessel's Temporary Enrolment Approval issued by the Brazilian Navy Seashore and Harbour Directorate ("AITEE") and the certificate issued by the Federal Revenue Office in respect of the Piranema Manager as soon as reasonably practicable.

8 **Master Agreements** (Within 45 calendar days of the Execution Date, or such longer period as the Swap Providers may agree) the Master Agreements together with any Credit Support Documents.

9 **Master Agreement Charge** (Within 45 calendar days of the Execution Date, or such longer period as the Swap Providers may agree) the Master Agreement Charge and any relevant legal opinions.

SCHEDULE 3: Calculation of Mandatory Cost

1 The Mandatory Cost is an addition to the interest rate to compensate the Lenders for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.

(a) On the first day of each Interest Period (or as soon as possible thereafter) the Agent shall calculate, as a percentage rate, a rate (the **"Additional Cost Rate"**) for each Lender in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Agent as a weighted average of the Lenders' Additional Cost Rates (weighted in proportion to the percentage participation of each Lender in the Loan) and will be expressed as a percentage rate per annum.

(b) The Additional Cost Rate for any Lender lending from an office in the euro-zone or from Switzerland will be the percentage notified by that Lender to the Agent to be its reasonable determination of the cost (expressed as a percentage of that Lender's participation in the Loan) of complying with the minimum reserve requirements of the European Central Bank or the Swiss Central Bank as a result of participating in the Loan from that office.

(c) The Additional Cost Rate for any Lender lending from an office in the United Kingdom will be calculated by the Agent as follows:

(d) where the Loan is denominated in sterling:

$$\frac{BY + S(Y - Z) + F \times 0.01}{100 - (B + S)} \text{ per cent per annum}$$

(e) where the Loan is denominated in any currency other than sterling:

$$\frac{F \times 0.01}{300} \text{ per cent per annum}$$

where:

B is the percentage of eligible liabilities (assuming these to be in excess of any stated minimum) which that Lender is from time to time required to maintain as an interest free cash ratio deposit with the Bank of England to comply with cash ratio requirements;

Y is the percentage rate of interest (excluding the Margin and the Mandatory Cost and, if the Loan is an overdue amount, the additional rate of interest specified in Clause 7.8 (*Default interest*)) payable for the relevant Interest Period on the Loan;

S is the percentage (if any) of eligible liabilities which that Lender is required from time to time to maintain as interest bearing special deposits with the Bank of England;

Z is the interest rate per annum payable by the Bank of England to that Lender on special deposits; and

F is the charge payable by that Lender to the Financial Services Authority under paragraph 2.02 or 2.03 (as appropriate) of the Fees Regulations or the equivalent provisions in any replacement regulations (with, for this purpose, the figure for the minimum amount in paragraph 2.02b or such equivalent provision deemed to be zero), expressed in pounds per £1 million of the fee base of that Lender.

2 For the purpose of this Schedule:

(a) " **eligible liabilities** " and " **special deposits** " have the meanings given to them at the time of application of the formula by the Bank of England;

(b) " **fee base** " has the meaning given to it in the Fees Regulations;

(c) " **Fees Regulations** " means the regulations governing periodic fees contained in the Financial Services Authority Fees Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits.

3 In the application of the formula B, Y, S and Z are included in the formula as figures and not as percentages, e.g. if B = 0.5% and Y = 15%, BY is calculated as 0.5. x 15. Each rate calculated in accordance with the formula is, if necessary, rounded upward to four decimal places.

4 If a Lender does not supply the information required by the Agent to determine its Additional Cost Rate when requested to do so, the applicable Mandatory Cost shall be determined on the basis of the information supplied by the remaining Lenders.

5 If a change in circumstances has rendered, or will render, the formula inappropriate, the Agent shall notify the Borrower of the manner in which the Mandatory Cost will subsequently be calculated. The manner of calculation so notified by the Agent shall, in the absence of manifest error, be binding on the Borrower.

SCHEDULE 4: Form of Drawdown Notice

To: **DNB BANK ASA**
200 Park Avenue
New York
NY10166
USA

Fax No: +1 212 681 4123
Email: evan.uhlick@dnb.no

From: **PIRANEMA L.L.C.**

[Date]

Dear Sirs,

Drawdown Notice

We refer to the Loan Agreement dated 2012 made between, amongst others, ourselves and yourselves (the " **Agreement** ").

Words and phrases defined in the Agreement have the same meaning when used in this Drawdown Notice.

Pursuant to Clause 4.1 of the Agreement, we irrevocably request that you advance the sum of [ ] to us on 20 , which is a Business Day, by paying the amount of the advance to [ ].

We warrant that the representations and warranties contained in Clause 11 (except for Clause 11.2) of the Agreement are true and correct at the date of this Drawdown Notice and will be true and correct on 20 , that no Default has occurred and is continuing, and that no Default will result from the advance of the sum requested in this Drawdown Notice.

We select the period of [ ] months as the first Interest Period.

Yours faithfully

____

For and on behalf of

PIRANEMA L.L.C.

SCHEDULE 5: Form of Transfer Certificate

To: **DNB BANK ASA**
200 Park Avenue
New York
NY10166
USA

Fax No: +1 212 681 4123
Email: evan.uhlick@dnb.no

TRANSFER CERTIFICATE

This transfer certificate relates to a secured loan facility agreement (as from time to time amended, varied, supplemented or novated the " **Loan Agreement** ") dated 2012, on the terms and subject to the conditions of which a secured revolving credit facility was made available to Piranema L.L.C., by a syndicate of banks on whose behalf you act as agent and security agent.

1 Terms defined in the Loan Agreement shall, unless otherwise expressly indicated, have the same meaning when used in this certificate. The terms " **Transferor** " and " **Transferee** " are defined in the schedule to this certificate.

2 The Transferor:

2.1 confirms that the details in the Schedule under the heading " **Transferor's Commitment** " accurately summarise its Commitment; and

2.2 requests the Transferee to accept by way of novation the transfer to the Transferee of the amount of the Transferor's Commitment specified in the Schedule by counter-signing and delivering this certificate to the Agent at its address for communications specified in the Loan Agreement.

3 The Transferee requests the Agent to accept this certificate as being delivered to the Agent pursuant to and for the purposes of clause 14.4 of the Loan Agreement so as to take effect in accordance with the terms of that clause on the Transfer Date specified in the Schedule.

4 The Agent confirms its acceptance of this certificate for the purposes of clause 14.4 of the Loan Agreement.

5 The Transferee confirms that:

5.1 it has received a copy of the Loan Agreement together with all other information which it has required in connection with this transaction;

5.2 it has not relied and will not in the future rely on the Transferor or any other party to the Loan Agreement to check or enquire on its behalf into the legality, validity, effectiveness, adequacy, accuracy or completeness of any such information; and

5.3 it has not relied and will not in the future rely on the Transferor or any other party to the Loan Agreement to keep under review on its behalf the financial condition, creditworthiness, condition, affairs, status or nature of any Security Party.

6 Execution of this certificate by the Transferee constitutes its representation and warranty to the Transferor and to all other parties to the Loan Agreement that it has the power to become a party to the Loan Agreement as a Lender on the terms of the Loan Agreement and has taken all steps to authorise execution and delivery of this certificate.

7 The Transferee undertakes with the Transferor and each of the other parties to the Loan Agreement that it will perform in accordance with their terms all those obligations which by the terms of the Loan Agreement will be assumed by it after delivery of this certificate to the Agent and the satisfaction of any conditions subject to which this certificate is expressed to take effect.

8 The Transferor makes no representation or warranty and assumes no responsibility with respect to the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any document relating to any Finance Document, and assumes no responsibility for the financial condition of any Finance Party or for the performance and observance by any Security Party of any of its obligations under any Finance Document or any document relating to any Finance Document and any conditions and warranties implied by law are expressly excluded.

9 The Transferee acknowledges that nothing in this certificate or in the Loan Agreement shall oblige the Transferor to:

9.1 accept a re-transfer from the Transferee of the whole or any part of the rights, benefits and/or obligations transferred pursuant to this certificate; or

9.2 support any losses directly or indirectly sustained or incurred by the Transferee for any reason including, without limitation, the non-performance by any party to any Finance Document of any obligations under any Finance Document.

10 The address and fax number of the Transferee for the purposes of clause 18 of the Loan Agreement are set out in the Schedule.

11 This certificate may be executed in any number of counterparts each of which shall be original but which shall together constitute the same instrument.

12 This certificate and any non-contractual obligation arising out of or in connection with it shall be governed by and interpreted in accordance with English law.

THE SCHEDULE

1 ***Transferor*** :

2 ***Transferee*** :

3 ***Transfer Date*** (not earlier than the fifth Business Day after the date of delivery of the Transfer Certificate to the Agent):

4 ***Transferor's Commitment*** :

5 ***Amount transferred*** :

6 ***Transferee's address and fax number for the purposes of clause 18 of the Loan Agreement*** :

[***name of Transferor***]	[***name of Transferee***]
By:	By:
Date:	Date:

DNB Bank ASA as Agent and on behalf of each of the Finance Parties and the Borrower

By:

Date:

SCHEDULE 6: Form of Increase Confirmation

To: DNB Bank ASA as Agent, and Piranema L.L.C as Borrower

From: [the *Increase Lender*] (the " **Increase Lender** ")

Dated:

Piranema L.L.C. — $130,000,000 Facility Agreement dated [ ] (the "Agreement")

We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.

We refer to Clause 2.2 (*Increase*).

The Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the " **Relevant Commitment** ") as if it was an original Lender under the Agreement.

The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the " **Increase Date** ") is [ ].

On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.

The address, fax number and attention details for notices to the Increase Lender for the purposes of Clause 18.2 are:

Name of Increase Lender: [•]

Address: [•]

Fax: [•]

E-mail: [•]

Attention: [•]

The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in paragraph (f) of Clause 2.2 (*Increase*).

This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.

This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

[Increase Lender]

By:

This Increase Confirmation is accepted as an Increase Confirmation for the purposes of the Agreement by the Agent and the Increase Date is confirmed as [ ].

Agent

By:

Security Agent

By:

IN WITNESS of which the parties to this Agreement have executed this Agreement the day and year first before written.

SIGNED by	)
duly authorised for and on behalf	)
of **PIRANEMA L.L.C.**	)
SIGNED by	)
duly authorised for and on behalf	)
of **NORDEA BANK FINLAND PLC,**	)
NEW YORK BRANCH	)
(as a Lender)	)
SIGNED by	)
duly authorised for and on behalf	)
of **DNB BANK ASA**	)
(as a Lender)	)
SIGNED by	)
duly authorised for and on behalf	)
of **DNB BANK ASA**	)
(as the Agent)	)
SIGNED by	)
duly authorised for and on behalf	)
of **DNB BANK ASA**	)
(as the Security Agent)	)
SIGNED by	)
duly authorised for and on behalf	)
of **NORDEA BANK FINLAND PLC,**	)
NEW YORK BRANCH	)
(as an MLA)	)

SIGNED by	)
duly authorised for and on behalf	)
of **DNB BANK ASA**	)
(as an MLA)	)
SIGNED by	)
duly authorised for and on behalf	)
of **NORDEA BANK FINLAND PLC,**	)
NEW YORK BRANCH	)
(as a Swap Provider)	)
SIGNED by	)
duly authorised for and on behalf	)
of **DNB MARKETS INC.**	)
(as a Bookrunner)	)
SIGNED by	)
duly authorised for and on behalf	)
of **NORDEA BANK FINLAND PLC,**	)
NEW YORK BRANCH	)
(as a Bookrunner)	)
SIGNED by	)
duly authorised for and on behalf	)
of **CREDIT SUISSE AG**	)
(as a Lender)	)
SIGNED by	)
duly authorised for and on behalf	)
of **CREDIT SUISSE AG**	)
(as a Lead Arranger)	)
SIGNED by	)
duly authorised for and on behalf	)
of **ROYAL BANK OF CANADA**	)
(as a Lender)	)

SIGNED by	)
duly authorised for and on behalf	)
of **ROYAL BANK OF CANADA**	)
(as a Lead Arranger)	)

SIGNED by	)
duly authorised for and on behalf	)
of **SKANDINAVISKA ENSKILDA BANKEN AB**	)
(as a Lender)	)

SIGNED by	)
duly authorised for and on behalf	)
of **SKANDINAVISKA ENSKILDA BANKEN AB**	)
(as a Lead Arranger)	)

Exhibit 4.12

27 th August, 2012

TEEKAY OFFSHORE HOLDINGS L.L.C.

-and-

TEEKAY SHIPPING LIMITED

BUSINESS DEVELOPMENT SERVICES AGREEMENT

THIS AGREEMENT is made effective the 27 th day of August 2012

BETWEEN:

(1) **TEEKAY OFFSHORE HOLDINGS L.L.C.** , a limited liability company incorporated under the laws of the Republic of the Marshall Islands whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960 ('TOH'); and

(2) **TEEKAY SHIPPING LIMITED** , a company incorporated under the laws of the Commonwealth of the Bahamas with Company Registration Number 5621B whose registered office is at Bayside House, Bayside Executive Park, West Bay Street & Blake Road, P.O. Box A.P. 59213, Nassau, The Bahamas ('TSL')

WHEREAS:

A. TOH is a corporation which, inter alia, is directly and indirectly engaged in the business of international shipping, holding all of the issued and outstanding shares in a number of vessel owning corporations and being the sole member of a number of vessel owning limited liability companies;

B. TSL is a wholly owned subsidiary of Teekay Corporation ("TSC") and is a provider of a variety of global shipping and associated administrative services; and

C. TOH wishes to contract the services of TSL as described herein and TSL is willing to perform the services under the terms of this Agreement.

NOW THEREFORE this Agreement witnesses that in consideration of the mutual covenants and agreements herein contained the parties hereto agree as follows:

1 Definitions

1.1 In this Agreement the following terms shall have the meanings set out below:

1.1.1 'Services' means all matters and services described in Schedule A hereto.

1.1.2 'Service Fee' means the fee calculated in accordance with the terms set out in Schedule B hereto.

1.1.3 'TSC Group' means TSC any and all direct and indirect subsidiaries and affiliates of Teekay Corporation.

1.1.4 'TOH Group' means TOH any and all direct and indirect subsidiaries and affiliates of TOH.

1.2 Interpretation: In this Agreement:

1.2.1 References to persons include references to bodies corporate and unincorporate.

1.2.2 Unless the context requires otherwise, words in the singular number include the plural number and vice versa.

1.2.3 Words in one gender shall include all other genders.

1.2.4 Clause headings are inserted for convenience only and shall not effect the construction of this Agreement and, unless otherwise specified, all references to clauses and schedules are to clauses of, and schedules to, this Agreement.

2 Appointment

2.1 TOH hereby appoints TSL to provide, and TSL hereby agrees to provide, the Services for TOH subject to and upon the terms and conditions set out in this Agreement.

3 Services

3.1 TSL shall, except as otherwise instructed by TOH in writing, perform all or any of the Services for TOH as TOH may from time to time reasonably request.

3.2 TSL shall retain or procure at all times qualified staff so as to maintain a level of expertise sufficient to provide the Services for TOH in accordance with this Agreement.

3.3 In exercise of its duties hereunder, TSL shall act in accordance with TOH’s corporate policies and standards as communicated to it by TOH from time to time and TSL shall at all times perform the Services diligently and in a commercially reasonable manner and be responsible to TOH for the due and proper performance of the same.

3.4 TSL shall keep full and proper books, records and accounts showing clearly all transactions relating to its provision of the Services in accordance with established general commercial practices and in accordance with generally accepted accounting principles, and allow TOH and its representatives to audit and examine such books, records and accounts at any time during customary business hours.

4 Fees and Expenses

4.1 In return for TSL providing the Services for TOH, TOH shall pay to TSL the Service Fee as determined, and by installments as set out, in Schedule B hereto.

5 Subcontracting

5.1 TSL shall not assign, sub-contract or sub-license any of the obligations or rights hereunder to any party that is not a member of the Teekay Corporation Group without the prior written consent of TOH and provided that in all cases TSL shall remain responsible for the due fulfillment of this Agreement.

6 Termination and Variation

6.1 Either party may terminate this Agreement upon giving to the other party at least sixty (60) days prior written notice of the effective date of termination.

6.2 This Agreement shall automatically terminate:

6.2.1 should TOH no longer directly or indirectly be engaged in the business of international shipping;

6.2.2 at the option of the party not in breach, if either party breaches a material obligation of this Agreement and fails to remedy the breach within thirty (30) days after written notice thereof;

6.2.3 at the option of the other party, if a party makes a general assignment for the benefit of its creditors, files a petition in bankruptcy or for liquidation, is adjudged insolvent or bankrupt, commences any proceedings for a reorganization or arrangement of debts, dissolution, or liquidation under any law or statute or any jurisdiction applicable thereto, or if any such proceedings shall be commenced and not dismissed or otherwise disposed of within sixty (60) days; or

6.2.4 if a final judgment, order or decree which materially and adversely affects the ability of either party to perform its obligations under this Agreement shall have been obtained or entered against the other party and such judgment, order or decree shall not have been vacated, discharged or stayed.

6.3 Upon termination of this Agreement the Service Fee payable to TSL shall be calculated and paid to the actual date of termination. Any overpayment shall be refunded to TOH and any underpayment shall be paid to TSL.

6.4 In the event of termination as herein provided TOH will be fully responsible and liable for any cost or expense incurred by TSL in connection with the provision of the Services prior to such termination or as a consequence of such termination and TSL shall remain liable to TOH to account for monies received by TSL in connection with the provision of the Services prior to termination and not expended prior to or as a consequence of termination.

7 Ratification and indemnification

7.1 TOH ratifies and confirms and undertakes at all times to ratify and confirm whatever may be properly done or caused to be done by TSL in the provision of the Services.

7.2 TOH undertakes to keep TSL and its employees and agents indemnified and to hold them harmless against all actions, proceedings, claims, demands, or liabilities whatsoever which may be brought against them due to this Agreement including, without limitation, all actions, proceedings, claims, demands or liabilities brought under the environmental laws of any jurisdiction, and against and in respect of all costs and expenses (including legal costs and expenses on a full indemnity basis) they may suffer or incur due to defending or settling any or all of the same, provided however, that such indemnity shall exclude any or all losses, actions, proceedings, claims, demands, costs, damages, expenses and liabilities whatsoever which may be caused by or due to the negligence or willful misconduct of TSL or its employees or agents.

8 Force Majeure

8.1 Neither party shall be liable for any failure to perform its obligations under this Agreement due to any cause beyond its reasonable control.

9 Entire Agreement

9.1 This Agreement forms the entire agreement between the parties with respect to the subject matter hereof and supersedes and replaces all previous agreements, written or oral, with respect to the subject matter hereof.

10 Severability

10.1 If any provision herein is held to be void or unenforceable, the validity and enforceability of the remaining provisions herein shall remain unaffected and enforceable.

11 Relationship between the Parties

11.1 The relationship between the parties is that of independent contractor. Nothing herein shall be interpreted so as to create a partnership, joint venture, employee or agency relationship between TSL and TOH or any member of the TOH Group.

12 Confidential Information

12.1 TSL shall keep confidential, both during and after the currency of this Agreement, all information relating in any way to TOH or any member of the TOH Group that it has acquired or developed in the course of providing the Services under this Agreement. The foregoing shall not apply to such information which is generally known to the public other than by way of breach of this Agreement by TSL and shall not apply to the extent that TSL is required by law to disclose any such information. TSL shall not make use of such information for any purpose other than in the course of providing the Services hereunder. TOH shall be entitled to any equitable remedy available at law or equity, including specific performance, against a breach by TSL of this obligation. TSL shall not resist such application for relief on the basis that TOH has an adequate remedy at law, and TSL shall waive any requirement for the securing or posting of any bond in connection with such remedy.

13 Surrender of Books and Records

13.1 Upon termination of this Agreement TSL shall forthwith surrender to TOH any and all books, records, documents and other property in the possession or control of TSL relating to this Agreement and to the business, finance, technology, trademarks or affairs of TOH and any member of the TOH Group and except as required by law shall not retain any copies of the same.

14 Currency

14.1 Unless otherwise stated, all currency references herein are to United States Dollars.

15 Law and arbitration

15.1 This Agreement shall for all purposes be governed and construed in accordance with the laws of England & Wales. Any dispute arising out of this Agreement shall be referred to the exclusive jurisdiction of the High Court of England & Wales at London, England, subject to the procedures applicable thereto.

16 Modification and Benefit

16.1 This Agreement shall not be amended, altered or modified except by an instrument in writing executed by the parties hereto and shall be binding upon and inure to their benefit and be binding and inure to the benefit of their respective successors and assigns.

17 Notice

17.1 All notices, requests, demands and other communications given or made in accordance with the provisions of this Agreement shall be in writing and shall be given either by hand or by fax to the addresses below and shall be deemed to have been given when actually received:

If to TOH:

Teekay Offshore (Operating Subsidiary TBD)
Suite No. 1778
48 Par-la-Ville Road
Hamilton, HM 11 Bermuda

Attn: Secretary

Fax: (441) 292 3931

If to TSL:

Teekay Shipping Limited
Suite No. 1778
48 Par-la-Ville Road
Hamilton, HM 11 Bermuda

Attn: Director

Fax: (441) 292 3931

18 Waiver

18.1 The failure of either party to enforce any term of this Agreement shall not act as a waiver. Any waiver must be specifically stated as such in writing

19 Counterparts

19.1 This Agreement may be executed in one or more signed counterparts, facsimile or otherwise, which shall together form one instrument.

IN WITNESS whereof the parties hereto have caused this Agreement to be executed by their duly authorized officers the day and year first above written

TEEKAY OFFSHORE (OPERATING SUBSIDIARY TBD) SHIPPING LIMITED	**TEEKAY**
By: ______________________________	By: ______________________________
Name:	Name:
Title:	Title:

SCHEDULE ‘A’

SERVICES

TSL shall provide for TOH such of the Services as TOH shall from time to time request and direct TSL to provide for it pursuant to Section 3 of this Agreement.

In this Agreement ‘Services’ means all matters and activities including but not limited to those listed below:-

1) Business Development Services

   a) researching macroeconomic trends affecting the oil tanker markets;

   b) developing and implementing strategic plans for the purpose of expanding existing business as well as developing new business;

   c) providing advice regarding the negotiating and arranging the purchase, sale and financing of vessels;

   d) coordinating construction of new vessels in various shipyards around the world;

   e) monitoring and evaluating ship construction and scrapping activities in order to assess available tonnage;

   f) providing advice and making introductions to enable TOH to develop strategic alliances;

   g) assisting in implementing strategic business decisions such as new joint ventures or profit pooling arrangements;

   h) monitoring and analyzing markets worldwide on a continuous basis to stay abreast of market activities and potential business opportunities;

   i) providing advice regarding strategic customer relations;

   j) all such other business development services as TOH may request from TSL from time to time.

SCHEDULE 'B'

SERVICE FEE

1. In return for the provision of the Services by TSL for TOH, TOH shall pay to TSL an annual Service Fee for each calendar year during the term of this Agreement divided into Twelve (12) equal monthly installments payable in advance and which is equal to the annual aggregate amount of such costs and expenses (the 'Costs and Expenses') as TSL may reasonably incur in connection with the provision of the Services plus a reasonable profit mark-up to be agreed upon and reviewed annually by the parties to this Agreement and which shall be consistent with the guidelines of the Organization for Economic Co-operation and Development ('OECD') for transfer pricing as well as local rules and regulations.
2. In respect of each calendar year during the term of this Agreement, TSL shall prepare an estimate of the Costs and Expenses it reasonably expects to incur during such year and shall submit such estimate to TOH within Fourteen (14) days of the last day of the immediately preceding year.
3. The calculation of TSL's aforesaid estimated Costs and Expenses may be adjusted from time to time by agreement between the parties, and the Service Fee payable by TOH shall be re-calculated accordingly.
4. Within Ninety (90) days (or such longer period as the parties shall agree) after the end of each year, TSL shall submit to TOH an accounting of the Costs and Expenses it has incurred in that year (the 'Actual Costs and Expenses').
5. Fourteen (14) days (or such longer period as the parties shall agree) after the date on which TSL delivers such accounting of its Actual Costs and Expenses:
    a) where the aggregate of all Service Fees paid in the relevant year, is less than the Actual Costs and Expenses with the agreed profit mark-up (if any), TOH shall pay an Adjustment to TSL;
    b) where the aggregate of all Service Fees paid in the relevant year, is greater than the Actual Costs and expenses with the agreed profit mark-up (if any), TSL shall pay an Adjustment to TOH; and
    c) where the aggregate of all Service Fees paid in a year, is equal to the Actual Costs and Expenses with the agreed profit mark-up (if any), no Adjustment is payable.
6. For the purposes hereof 'Adjustment' means a payment (made in accordance with the foregoing) in the amount of the difference between the aggregate of all Service Fees paid in a year, and the Actual Costs and Expenses with the agreed profit mark-up (if any) incurred in that year.

Exhibit 8.1

LIST OF SIGNIFICANT SUBSIDIARIES

The following is a list of Teekay Offshore Partners L.P.'s significant subsidiaries as at December 31, 2012:

Name of Significant Subsidiary	State or Jurisdiction of Incorporation	Proportion of Ownership Interest
VARG L.L.C.	MARSHALL ISLANDS	100.00%
PIRANEMA L.L.C.	MARSHALL ISLANDS	100.00%
NAVION OFFSHORE LOADING AS	NORWAY	100.00%
NORSK TEEKAY AS	NORWAY	100.00%
NORSK TEEKAY HOLDINGS LTD.	MARSHALL ISLANDS	100.00%
TEEKAY EUROPEAN HOLDINGS S.A.R.L.	LUXEMBOURG	100.00%
TEEKAY NAVION OFFSHORE LOADING PTE. LTD.	SINGAPORE	100.00%
TEEKAY NETHERLANDS EUROPEAN HOLDINGS BV	NETHERLANDS	100.00%
TEEKAY NORWAY AS	NORWAY	100.00%
TEEKAY OFFSHORE OPERATING L.P.	MARSHALL ISLANDS	100.00%
TEEKAY OFFSHORE EUROPEAN HOLDINGS COOPERATIEF U.A.	NETHERLANDS	100.00%
VARG PRODUCTION AS	NORWAY	100.00%

EXHIBIT 12.1

CERTIFICATION

I, Peter Evensen, certify that:

1. I have reviewed this Annual Report on Form 20-F of Teekay Offshore Partners L.P. (the “ ***Registrant*** ”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I and the Registrant’s other certifying officer (which is also myself) are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   a) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting.
5. I and the Registrant’s other certifying officer (which is also myself) have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the board of directors of the Registrant’s General Partner (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: April 11, 2013

By: /s/ Peter Evensen
Peter Evensen
Chief Executive Officer

EXHIBIT 12.2

CERTIFICATION

I, Peter Evensen, certify that:

1. I have reviewed this Annual Report on Form 20-F of Teekay Offshore Partners L.P. (“ ***the Registrant*** ”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I and the Registrant’s other certifying officer (which is also myself) are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the period covered by the Registrant’s annual report that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting.
5. I and the Registrant’s other certifying officer (which is also myself) have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the board of directors of the Registrant’s General Partner (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: April 11, 2013

By: /s/ Peter Evensen
Peter Evensen
Chief Financial Officer

EXHIBIT 13.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Teekay Offshore Partners L.P. (the ***"Partnership"***) on Form 20-F for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the ***"Form 20-F"***), I, Peter Evensen, Chief Executive Officer and Chief Financial Officer of the Partnership, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 20-F fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Dated: April 11, 2013

By: /s/ Peter Evensen
Peter Evensen
Chief Executive Officer and Chief Financial Officer

EXHIBIT 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-147682) pertaining to the Teekay Offshore Partners L.P. 2006 Long-Term Incentive Plan,

(2) Registration Statement (Form F-3ASR No. 333-174221) and related prospectus and prospectus supplements of Teekay Offshore Partners L.P. for the registration of up to $750,000,000 in total aggregate offering price of an indeterminate number of common units,

(3) Registration Statement (Form F-3 No. 333-175685) and related prospectus for the registration of 713,266 common units,

(4) Registration Statement (Form F-3 No. 333-178620) and related prospectus for the registration of 7,112,974 common units, and

(5) Registration Statement (Form F-3 No. 333-183225) and related prospectus for the registration of 1,700,022 common units;

of our report dated April 11, 2011, with respect to the consolidated results of the operations, cash flows and changes in total equity of Teekay Offshore Partners L.P. and subsidiaries for the year ended December 31, 2010, included in this Annual Report (Form 20-F) of Teekay Offshore Partners L.P. for the year ended December 31, 2012.

Vancouver, Canada	ERNST & YOUNG LLP
April 11, 2013	Chartered Accountant

EXHIBIT 15.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Teekay Offshore Partners L.P.:

(1) No. 333-147682 on Form S-8 pertaining to the Teekay Offshore Partners L.P. 2006 Long-Term Incentive Plan;

(2) No. 333-174221 on Form F-3 and related prospectus for the registration of up to $750,000,000 of common units representing limited partnership units;

(3) No. 333-175685 on Form F-3 and related prospectus for the registration of 713,226 common units;

(4) No. 333-178620 on Form F-3 and related prospectus for the registration of 7,122,974 common units;

(5) No. 333-183225 on Form F-3 and related prospectus for the registration of 1,700,022 common units.

of our reports dated April 11, 2013, with respect to the consolidated financial statements as at December 31, 2012 and 2011 and for each of the years in the two year period ended December 31, 2012, and the effectiveness of internal control over financial reporting as of December 31, 2012, which reports appear in the December 31, 2012 Annual Report on Form 20-F of Teekay Offshore Partners L.P.

Our report with respect to the consolidated financial statements refers to our audit of the adjustments that were applied to retrospectively adjust the consolidated statement of income (loss) for the year ended December 31, 2010 for the presentation of discontinued operations, as more fully described in note 1 to the consolidated financial statements. However, we were not engaged to audit, review, or apply any procedures to the consolidated statement of income (loss) for the year ended December 31, 2010 of the Partnership other than with respect to such adjustments.

/s/ KPMG LLP
Chartered Accountants
Vancouver, Canada
April 11, 2013