TEEKAY SHIPPING (CANADA) LTD.

Moderator: Peter Evensen
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Operator: Welcome to Teekay Corporation's Second Quarter 2014 Earnings Results conference call. During the call all participants will be in a listen-only mode. Afterwards you will be invited to participate in a question and answer session. At that time if you have a question participants will be asked to press star, 1 to register for a question. For assistance during the call please press star, 0 on your touch-tone phone. As a reminder this call is being recorded.

Now for opening remarks and introductions I would like to turn the call over to Mr. Peter Evensen, Teekay's President and Chief Executive Officer. Please go ahead sir.

Ryan Hamilton: Before Mr. Evensen begins I'd like to direct all participants to our Web site at www.teekay.com, where you will find a copy of the second quarter 2014 Earnings Presentation. Mr. Evensen and Mr. Lok will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements.

Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the Second Quarter 2014 Earnings Release and Earnings Presentation available on our Web site.

I'll now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, Ryan. Good morning everyone and thank you for joining us today for Teekay Corporation's Second Quarter 2014 Earnings call.

I'm joined this morning by our CFO, Vince Lok. And for the Q&A session we also have our Chief Strategy Officer, Kenneth Hvid; and our Group Controller, Brian Fortier.

During our call today we will be taking you through the Earnings Presentation, which can be found on our Web site. Beginning on Slide 3 of the presentation I will briefly review some recent highlights for Teekay Corporation.

For the second quarter of 2014 Teekay Corporation generated $224 million of total consolidated cash flow from vessel operations, or CFVO, an increase of 22% from the same period of the prior year.

Teekay Corporation reported a consolidated adjusted net loss of $20.1 million, or 28 cents per share, for the second quarter, compared to a consolidated adjusted net loss of $33.3 million, or 47 cents per share, in the same period of the prior year.

The decrease in our second quarter adjusted net loss is mainly due to contributions from acquisitions and organic growth projects that delivered during the past year; stronger spot tanker rates; and savings as a result of the redelivery of several charter and conventional tankers since the first quarter of 2013, partially offset by lower revenues from our FPSO fleet due to the Petrojarl 1 FPSO coming off its previous contract in April 2013.

In late June 2014 construction on the Petrojarl Knarr FPSO was completed and we took delivery from the Samsung shipyard in South Korea. The unit is currently in transit to the North Sea for field installation and offshore testing, which I'll talk about more in detail later on in the call.

In July 2014 the Petrojarl Banff FPSO recommenced operations under its charter contract. The unit is now generating cash flow after being offline for more than 2-1/2 years, following damages from a storm even in December 2011.

Lastly, repairs to the gas compressors onboard the Petrojarl Foinaven FPSO were completed in July and the unit is now gradually increasing its oil production throughput. The combined contributions from the Banff FPSO and the Foinaven FPSO are expected to have a beneficial impact on Teekay Corporation's results in the third quarter of 2014.

Turning to Slide 4, I'll briefly review some recent highlights from our three publicly traded daughter entities. Overall our two MLP's and Teekay Tankers have continued to execute on their respective business plans.

For the second quarter Teekay LNG Partners declared a cash distribution of 69.18 cents per unit, based on our GP and LP ownership interest in TGP. The cash flows received by Teekay Parent totaled $25.3 million for the quarter.

In early July Teekay LNG Partners, through our new 50/50 joint venture with China LNG Shipping, finalized the agreements to provide 6 internationally flagged icebreaker LNG carriers for the Yamal LNG project located in Northern Russia.

The project, which is being developed by Novatek, Total, and China National Petroleum, is currently scheduled for startup in early 2018 and it's expected to produce 16.5 million metric tons of LNG per annum once operating at full production.

LNG from the new liquefaction facilities will be transported primarily to Europe and Asia and nearly all of the expected LNG production output has already been agreed to be purchased by third parties and affiliates of the Yamal LNG project.

Our joint venture will provide six 172,000 cubic ARC7 LNG carrier newbuildings, which will be constructed by day we ship building in South Korea for a totally fully built-up cost of approximately $2.1 billion.

Teekay LNG's 50% portion of this investment would be just over $1 billion. The vessels are scheduled to deliver between the first quarter of 2018 and the first quarter of 2020 and each will operate under charter contracts until December 31, 2045, plus extension options following their respective deliveries.

In late June Teekay LNG Partners acquired from BG Group ownership interest in four 174,000 cubic meter tri-fuel diesel electric LNG carrier newbuildings, which will be constructed by Hudong Shipbuilding, for a totally fully built-up cost of approximately $1 billion.

These vessels are scheduled to deliver between September 2017 and January 2019 and each will operate under 20 year charter contracts, not including extension options with BG.

Teekay will provide the construction and supervision services for the newbuildings, as well as technical management of the vessels upon their respective deliveries.

Through this transaction Teekay LNG acquired a 30% ownership interest in the first 2 LNG carriers and a 20% ownership interest in second 2 LNG carriers. Teekay LNG's investment is expected to total approximately $250 million for its net 25% ownership interest in the project.

With this acquisition and the Yamal LNG project TGP has further broadened its already diversified LNG customer base with two new and important customers in the LNG space.

In BG's case we're pleased to expand our relationship with them into the LNG space, beyond our existing relationship with them in the shuttle and FPSO business.

Finally, through both transactions the Teekay Group has developed new strategic relationships with China based partners, which has been a strategic focus for a number of years.

During the quarter Teekay LNG Partners LPG Joint Venture with EXMAR took delivery of 2 of its 12 mid-sized LPG carrier newbuildings, marking a milestone in the LPG Joint Ventures fleet renewal and growth strategy. EXMAR LPG also sold 2 of its older LPG carriers for a $9.8 million gain based on Teekay LNG Partners 50% interest.

Looking at the results for our other master limited partnership, for the second quarter Teekay Offshore Partners declared a cash distribution of 53.84 cents per unit, based on our GP and LP ownership interest in TOO. The cash flows received by Teekay Parent totaled $17.7 million for the quarter.

Just this past week Teekay Offshore Partners entered a new line of business, the floating accommodation market, closing on its acquisition of Logitel Offshore Holdings.

Logitel is currently constructing two floating accommodation units at the COSCO Shipyard in China, which was based on the Sevan Marine cylindrical hull design. In addition Teekay Offshore Partners intends to exercise on of Logitel's existing six options with COSCO to construct a third floating accommodation unit, subject to final documentation.

A three-year charter contract, not including extension options with Petrobras in Brazil has already been secured for the first newbuilding accommodation unit and we expect to secure charter contracts for the remaining two newbuildings prior to their scheduled deliveries.

The three units are scheduled to deliver between the first quarter of 2015 and the third quarter of 2016. The floating accommodation market represents an exciting adjacent growth opportunity for Teekay Offshore with synergies from the partnerships existing operations, opportunities to gain additional business from our existing customer base and another application of Sevan's innovative cylindrical hull design technology. Teekay Offshore's investment in Logitel and the first 3 floating accommodation units is expected to total approximately $600 million.

In early July Teekay Offshore Partners completed the FSO conversion of its 1993 built shuttle tanker, the Navion Clipper, for Salamander Energy. The unit is currently undergoing field installation and is expected to commence its 10-year charter in mid-August.

This conversion is another great example of how, for a relatively small amount of investment, Teekay Offshore can extend the economic life of an older shuttle tanker.

In addition, the operational testing of the innovative Remora HiLoad DP unit, the first offtake unit of its kind, is currently underway in Brazil and is expected to be completed by the end of August, at which point the unit will commence its 10-year charter with Petrobras retroactive to April 11.

Finally, Teekay Offshore Partners 50/50 joint venture with Brazil based Odebrecht Oil and Gas was recently nominated by Petrobras as the leading commercial bidder for the Libra FPSO project in Brazil, subject to final contract negotiations.

The FPSO unit will service the Libra pre-salt oil field in the Santos Basin in Brazil and is expected to commence operations in early 2017, following completion of the FPSO Conversion project. This will be the second FPSO project for Teekay Offshore Partners Joint Venture with Odebrecht.

Looking at the Teekay Tankers column on the right, in the second quarter the company declared a fixed dividend of 3 cents per share. Based on its total ownership of Class A and Class B share Teekay Parent received a cash dividend of approximately $600,000.

Teekay Tankers generated cash available for distribution, or CAD, of 11 cents per share in the second quarter of 2014, up from 7 cents per share in the same period of the prior year, mainly due to higher average realized spot tanker rates.

Commercially Teekay Tankers was active during the second quarter, securing six additional in-charter contracts for its fleet, which included two Aframax tankers and four LR2 product tankers. With its well-timed addition of these new in-charters Teekay Tankers total in-charter fleet increased to eight vessels.

In July 2014 crude tanker rates in the Suezmax and Aframax market reached their highest levels for the month of July since 2008. This was mainly attributed to an increase in long-haul Suezmax movements from the Atlantic to the Pacific, the end of seasonal refinery maintenance, stockpiling due to the continued unrest in Iraq and Libya and vessel delays at the U.S. Gulf and Mediterranean ports.

Teekay Tankers realized a $10 million gain on the sale of its two 2010 built VLCC’s in the second quarter. Finally, this past week Teekay Tankers completed the acquisition of a 50% joint venture interest in Teekay Corporation’s Conventional Tanker, Commercial and Technical Management Operations for $15 million, paid through the issuance of approximately 4 million shares in Teekay Tankers to Teekay Parent.

Slide 5 provides an updated overview of our portfolio of growth projects across the Teekay Group. We continue to make progress in our existing portfolio of growth projects and have also added some new projects since I presented this slide the last quarter, all of which I touched on in my opening remarks.

As you can see, all of these new projects are being done directly at the daughter level, which will benefit Teekay Parent in the form of higher GP and LP cash flows in the future.

Turning to Slide 6, I'll briefly update you on the Knarr FPSO project. Since taking delivery in late June the unit has been in transit to the North Sea. Following field installation and testing the unit is expected to commence a 10-year contract with BG in the later part of the fourth quarter. At which point the unit will be eligible for sale to Teekay Offshore.

Although the fourth quarter of 2014 continues to be our expected timeframe for the commencement of the Knarr charter contract the timing is subject to the receipt of Norwegian regulatory approvals, along with favorable weather conditions on the journey from South Korea and during subsequent field installation and offshore testing.

Upon charter commencement the Knarr FPSO will be eligible for sale to Teekay Offshore, which will significantly delever Teekay Parent's balance sheet and increase our GP and LP cash flows from Teekay Offshore.

Turning to Slide 7, I will provide a brief update on the status of the Banff and Foinaven FPSO units. As I mentioned in my opening remarks, approximately 30 months of off-hire for repairs following storm damage in December 2011. The Banff FPSO recommenced operations under its charter contract with CNR.

Under this charter contract the Banff FPSO will operate at near cash breakeven levels. However, starting in January of 2015 there will be a rate step-up, which will result in higher cash flows, at which time the unit should become eligible for dropdown to Teekay Offshore under the Omnibus Agreement.

While the delayed start-up was unfortunate we've not permanently lost revenues. It only delayed their receipt since the oil is still there and we now expect to stay on the field longer.

Prior to the rate step-up in 2015 the restart-up of the Banff will provide incremental cash flows to Teekay Parent of approximately $9.5 million per quarter, starting in Q3.

Updating you on the Foinaven FPSO, both gas compressors are again operational following repairs to the second gas compressor, which were completed in July. The unit is currently producing and is expected to gradually ramp up to full production during the course of the third quarter.

The $23 million of negative CFVO reported for Teekay Parent's FPSO segment in the second quarter is expected to be the low point for the year, as the Banff and Foinaven FPS units are expected to contribute roughly $17.5 million of incremental CFVO in the third quarter of 2014, compared to the second quarter of 2014.

Turning to Slide 8, I'll update you on a new strategic partnership we recently formed with CarVal Investors, a leading global investment manager. Teekay Parent has recently signed a letter of intent to participate with CarVal in the development of a shipping company to be focused on the drybulk market.

Teekay Parent plans to co-invest up to $25 million in the new venture and generate these by providing operational and corporate services to the new company.

Through this proposed transaction Teekay would form a new strategic partnership with CarVal, which is an independent subsidiary of Cargill, to take advantage of a well-timed countercyclical investment opportunity in the drybulk shipping sector.

CarVal has already been active in the market, buying drybulk vessels at the current cyclical low asset values. And through the partnership we expect to co-invest alongside CarVal and its investors, and provide the partnership with the operational and management services required, effectively providing a corporate back office to the entity.

CarVal's current fleet consists of 16 modern drybulk vessels, including six newbuildings, with plans to opportunistically acquire additional vessels at current cyclical low prices. On delivery most of the vessels are expected to be charted to Cargill Ocean Transportation, one of the world's largest cargo traders, at a guaranteed minimum floor rate for a period of two years.

I look forward to providing you with further updates on this partnership as it takes shape. With that I'll turn the call over to Vince to discuss the company's financial results.

Vince Lok: Thanks Peter and good morning everyone. Starting with Slide 9 I will review our consolidated results for the quarter, comparing the adjusted income statement for the second quarter of 2014 against an adjusted income statement for the first quarter of 2014, which excludes the items listed Appendix A to our release. Later on I will also provide our outlook for the third quarter of 2014.

Stating at the top of the page, net revenues decreased by $53 million, primarily due to the $15 million of catch-up interest income recognized on our 3 VLCC term loans in Q1; declines in stock tanker rates in Q2 from the high rates we experienced in Q1; a $7 million decrease from recent conventional tanker sales; a $9 million decrease from a shuttle tanker fleet, primarily due to lower COA days and higher dry docking activity.

And an $8 million decrease related to the Foinaven FPSO due to the commercial settlement we received in Q1 in relation to the Foinaven's 2013 production. These revenue decreases were partially offset by S&P fees we earned from Tanker Investments Limited in Q2, relating to the recent vessel acquisitions.

Vessel operating expenses decreased by $3 million, mainly due to lower repairs and maintenance costs on our FPSO units and the sale of our 4 conventional tankers in the first quarter.

Time-charter hire expense decreased by $7 million, mainly related to our in-charter ((inaudible)) tanker fleet, due to a reduction in the number of in-charter's, as well as scheduled dry dockings.

G&A expense decreased by $1 million, partly due to the timing of recognition of long-term incentive compensation expenses, which are typically higher in the first quarter of each year.

Equity income increased by $2 million, primarily due to higher VLGC rates earned by the EXMAR LPG joint venture in Q2, partially offset by scheduled dry dockings in the MALT LNG joint venture in Q2. In addition to the increase in adjusted earnings TJT also recognized a $9.8 million gain on the sale of 2 older vessels in the EXMAR LPG fleet during Q2.

Non-controlling interest expense decreased by $20 million, mainly as a result of lower adjusted earnings in Teekay Tankers, and Teekay offshore, compared to the first quarter. Looking at the bottom line, adjusted net loss was 28 cents per share in the second quarter, which is more or less in line with our expectations.

Now turning to Slide 10, we have provided some guidance on our consolidated financial results for the third quarter of 2014.

Revenues from the fixed rate fleet are expected to increase as a result of the following, a $12 million increase from the Banff FPSO returning to production on July 14; a $10 million increase from the HiLoad unit direct financing lease, which is - which includes a retroactive portion back to April 11 in accordance with the charter contract with Petrobras; a $4 million increase relating to the Foinaven FPSO returning to production and operations in early July and gradually increasing its production over the course of the third quarter; a $4 million increase from the remaining FPSO fleet, primarily due to higher expected production and a $3 million increase in the Salamander FSO, which expected to achieve first ((inaudible)) in August.

These increases are partially offset by a $4 million decrease in Q2, as Q2 included S&P fees relating to the vessel acquisitions by TIL, and a $2 million decrease in the conventional tanker fleet from vessel sales and out-charter redeliveries. Spot revenue days are expected to increase by 165 days as a result of the new TNK in-charters, partially offset by drydockings and vessel sales.

So far in Q3 we have fixed approximately 43% of our spot Aframax and Suezmax revenue days at average TCA rates of 18,600 and 19,600 per day respectively, which is higher than the Q2 averages.

Overall vessel operating expenses are expected to remain consistent with the second quarter, as increases from the Banff FPSO, Salamander FSO and the HiLoad unit offset decreases from the Foinaven FPSO and the sale of conventional tankers.

Time-charter hire expense is expected to increase by $6 million as a result of the 5 additional in-charter conventional tankers being added to the TNK fleet during the course of Q3 and the return to service of in-chartered shuttle tankers, which completed scheduled drydockings in Q2.

Depreciation and amortization is expected to increase by $2 million, related to depreciation on the Salamander FSO, as well as additional drydocking costs. We expect G&A to be approximately $36 to $37 million in Q3 and that interest expense for Q3 is expected to increase by $2 million due to the TOO bond issued in Q2 and the start-up of the Salamander FSO.

Equity income is expected to be consistent with Q2 at approximately $27 to $28 million. Income tax expense is expected to be consistent with Q2 at approximately $3 million. Non-controlling interest expense is expected to be between $50 to $52 million in Q3, which is higher than Q2, primarily as a result of higher expected earnings in Teekay Tankers and Teekay Offshore.

Overall we are expecting stronger results in Q3 compared to Q2, mainly as a result of the Banff FPSO returning to operations, increased production from the Foinaven FPSO and higher spot tanker rates.

Looking further ahead, we believe that Teekay is at an inflection point in terms of profitability, with Q3 being the start of a lot of positive momentum. With many of our offshore assets in projects, either recently returning to service or delivering over the next several quarters, including the Knarr FPSO, as well as the positive trend in spot tanker rates, Teekay's profitability should continue to improve from what we saw in Q2.

I will now turn the call back to Peter to conclude.

Peter Evensen: Thanks Vince. Before we turn the call over to questions I'd like to turn your attention to Slide 11, which provides some key information regarding the Teekay Group's 2014 Investor Day, which scheduled for the morning of Tuesday, September 30.

The event will take place at the St. Regis Hotel in New York, at which time we'll provide a detailed presentation on the Teekay Group of companies, covering our strategy, financial position and market outlook for Teekay Corporation and our three publicly traded daughter companies.

The event will be Webcast live for all interested investors. We encourage everyone to mark this date in your calendars and we look forward to presenting and meeting with all of our current and prospective investors.

Thank you for joining us on the call today and, Operator, we're now ready to take questions.

Operator: Thank you. Ladies and gentlemen if you would like to ask a question please press star, 1 on your touch-tone phone. If you are using a speakerphone please pick up the handset before pressing any keys. Once again if you would like to ask a question please press star 1.

And your first question comes from the line of Keith Mori from Barclays. Please go ahead.

Keith Mori: Hey, good morning gentlemen. Thank you for taking the questions here.

Peter Evensen: Good morning.

Keith Mori: Peter, you know, you've gone on, on Teekay Offshore and you went a little bit further into the supply chain on that side. You know, when we look at TGP are there other opportunities that you can kind of get that come across your desk, such as regasification units, or ethylene, that maybe has you - want to go further into that supply chain?

Peter Evensen: Sure. So, yes, we have branched out more in Teekay Offshore and Teekay LNG. We're looking at a few, I would call it, macro headwinds right now on the Teekay LNG Partner side. On the LNG side we've had a downturn in spot LNG rates. That doesn't affect our partnership because we're all sold out, but right now we think that now isn't the right time to invest in short-term LNG assets.

So that's why we've been looking more at point-to-point tenders farther out. But we're also working on floating storage ((inaudible)) and while we haven't gotten a new project that we can announce I assure you our development companies have been working on that.

But when you look at it we still have a forward order book, or pipeline, of $2.5 billion. So I'm not worried about that. I would rather wait for the best project that we have.

On the LPG side we have some ethylene projects, but again when you look at the LPG market, if you look at VLGC's, 50% of the fleet is on order. So you have a right to be a little cautious there.

We like our - what we've done in EXMAR LPG. We're focused in on the ethane markets, we're focused in on the ammonia markets and we think those were going to be more stable projects.

So we were one of the people that were competing along the Reliance deal. Reliance decided to order and own themselves, but we think there will more of those types of projects going forward. In fact we think the ethane market is pretty much where the LNG market was in the early 80's, so we're hopeful.

Keith Mori: Okay. We appreciate the color on that side. I'd like to just pivot for one moment here, Peter, you know, the FPSO Knarr seems to be on schedule here. You know, the dropdowns look to be coming over the next 12 to 18 months and I know some of the other FPSO's are a little bit smaller than the Knarr, extremely smaller.

Should we be expecting, you know, a dividend reset maybe in fourth quarter or first quarter here and will you, you know, like we've talked about in the past, be utilizing that analyst data to kind of give us a little bit more of an outlook?

Peter Evensen: Yes. So we're - we have told people we're going to come and announce the new dividend policy at Investor Day and talk about what's going on. But the key event, as we've told everyone for over a year, is when the Petrojarl Knarr drops down and goes on charter. That has beneficial effects lots of places.

First of all up to Teekay Parent it will delever the company, which will setup positively for its dividend prospects. And then secondly, of course, the dropdown to Teekay Offshore will be beneficial in terms of increased LP and GP units. So that's the key event that we're looking for. So I would say that has an effect from 2015.

Keith Mori: Okay thank you for that, Peter. And then one last one from me, Vince, you know, the FPSO Foinaven has a true-up in the fourth quarter, you know, how has the gas compressor repairs kind of impacted, you know, that true-up in the fourth quarter? Could you maybe help us frame the type of cash flow we should expect from that?

Vince Lok: That's right we do recognize more revenue in the fourth quarter of each year from the Foinaven contract. It's a little bit difficult to predict at this point because the Foinaven is gradually increasing its production over the course of the third quarter. I think typically the additional pick up in the fourth quarter is in the range of $20 to $30 million and I would expect that this year would be somewhat in that range as well. But we'll give a better update next quarter to - or perhaps at investor day.

Keith Mori: All right thank you gentlemen. I'll pass it along.

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

Fotis Giannakoulis: Yes, good morning and thank you. Peter, obviously the delivery of the Knarr FPSO is the big event. Can you remind us how much your operating cash flow is going to increase after this dropdown, and if you can give us some guidance on the dividend potential for a TOO after this dropdown?

Peter Evensen: Yes. We haven't given specific guidance on what the accretiveness is of the Petrojarl Knarr when it drops down, but the operating cash flow that we expect to get...

Vince Lok: Yes. In terms of annual EBITDA from the unit it's about $130 to $140 million per year. It's a very profitable unit and should be very accretive to Teekay Offshore and therefore to the parent.

Fotis Giannakoulis: And you have some more FPSO's at the parent level and you just mentioned that you started, was it, the Banff started again operating. What is the expectation of a potential dropdown of these vessels to TOO?

Peter Evensen: Yes. I've always said that a dollar, is a dollar, is a dollar, so we've been waiting until we get the right contract negotiations in order to go forward. Obviously, as I said on my prepared remarks, the Banff will be eligible because its contract becomes much better after January 1, 2015.

But we also have the Foinaven and the Hummingbird that are - that will ultimately be dropped down. And we're just waiting until we get the right contract in order to - so that when it drops down it will be maximum accretive to TOO, and therefore beneficial to the Teekay Parent.

So the - so we don't really want to drop it until it will give us our maximum value, but we intend to drop all of the FPSO's that we have at Teekay Parent down to Teekay Offshore over the next couple of years.

Fotis Giannakoulis: And regarding the Hummingbird, can you remind us when - are you in the process of looking for a contract? Is there a contractor, and if there is going to be a need for additional CAPEX that you will have to spend for the deployment of this asset?

Peter Evensen: Well the Hummingbird is on an existing contract, but it's a short-term contract. And as I said last quarter, we're in negotiations, or discussions, with the existing charterer because that field looks like it will need to be - stay on that field longer than the existing contract. So if we can recontract that for a longer period then it becomes eligible for dropdown.

Fotis Giannakoulis: And can you give us an estimate? I think this expires in early 2016. Is there going to be a possibility for another five years that will make it suitable for a dropdown, or it's something that you still do not have a view yet?

Peter Evensen: We haven't finished our discussions with Centrica, which is the charterer of the unit. So I don't want to be locked in on exactly what time period that will be.

But the good news is that the field is producing at a higher rate than what was forecast and therefore there's a need for the FPSO on the field and therefore obviously being there already will be better for us and we become in the pole position to continue there.

Fotis Giannakoulis: Thank you Peter. One last question about your new (JV). It comes to - assets are ((inaudible)) given how weak drybulk market has been developing this year. Can you explain your thesis about the drybulk market? Is this one of these projects with long-term potential employment to Cargill that make you feel more comfortable, or you see that the asset values are going to turn - the market is going to turn around and asset values will move even higher than what they are today?

Peter Evensen: It's actually more the later. We actually see this as that the fundamentals of the drybulk market are akin to the cyclical lows that we've had in the tanker market.

So just as we created Tanker Investments Limited and went into a spot play we intend to do the same thing on the drybulk side. The great news is with Cargill Ocean Transport, which operates over 800 vessels, they have great market insight.

So I think that gives us an advantage over other shipping companies involved in the drybulk because we're doing business with an end user. So when you're talking with someone with Cargill they are long cargo, short ships, and this new venture is more of an asset play on drybulk and so it's more akin to ((inaudible)). It's not the same as our fixed rate contract opportunities that we have in gas and offshore, so it's a spot play.

And we think rates will get better over time. Obviously we're one of the biggest in - through Australia we operate the tubs in Port Hedland, which is the biggest exporter of iron ore, and we're able to see the amount of new projects and the actual cargo volumes that are going to come out on drybulk in the next few years.

Fotis Giannakoulis: Thank you very much, Peter.

Peter Evensen: Thank you, Fotis.

Operator: Once again ladies and gentlemen if you would like to ask a question please press star, 1 on your touch-tone phone.

And your next question comes from Michael Webber from Wells Fargo Securities. Please go ahead.

Male: Hi, Peter. This is actually ((inaudible)) for Michael. How are you?

Peter Evensen: Fine.

Male: So I just had a couple of quick questions for you, one, being on the KT Maritime tugs newbuild. In prior couple of quarters you announced that those would be done directly, the parenthood eventually being dropped on to either TO or TGP. I just want to get an update on that and see what the progress has been in terms of building those news builds and whether or not a decision has been made whether this would be more applicable to TO or TGP?

Peter Evensen: Yes. So we have - so this a contract we're investing $25 million in 3 tugs that will support the Shell Prelude project in Australia. We have a joint venture partner in KOTUG, so we're going to - I think the combined expertise of Teekay Australia, as well as KOTUG, sets up well for this project, as well as new projects.

We haven't decided which MLP it's going to dropdown into, but it will go down into one of the MLP's. It's a tug, so you see we have the deep sea towage in Teekay Offshore, but we also - it is also gas related. So no decision has been taken, but they don't deliver until 2016.

Male: Got it. And just a quick follow-up question on Fotis' question on the FPSO's, but I realized having ((inaudible)) is not really eligible to be a dropdown yet just because it doesn't have a long enough charter, but my understanding is that that FPSO also requires some upgrades. So as you think about upgrading the unit would it be more applicable for upgrading the unit at the parent level, or potentially post-dropdown?

Peter Evensen: No, I don't think so. What we're talking about, if you extend the life is that you may have to add gas compression. And just as we've done on several of our FPSO's we could do that probably on the field.

So we would continue to produce while we're on the field. And that benefits us and it also benefits the customer because you're not offline. And so that's a life extension upgrade in order to take account for what the field dynamics are going to be and the fact that you're longer on it.

So that's why it can be dropped in any time. We just think that as it gets a longer contract it becomes more valuable and therefore we can sell it for a greater price to Teekay Offshore and it's more valuable to Teekay Offshore and that's why we're waiting. As I said earlier, a dollar is a dollar and my job is to maximize the sale price of all of our units.

Male: Got it. And one quick final question on the Libra FPSO project, I realize this may be more applicable for TOO, but so I get a sense on the incremental opportunities this has come from in FPSO there, would you say there's greater opportunity beyond the FPSO regarding FAU's at this project or what other incremental business could Teekay get from this potential FPSO?

Peter Evensen: Well this is an early well test ship that it will go on for eight years and we have another early well test ship actually that is already operating there. So there will ultimately be a permanent installation on the Libra field, maybe more than one, and then we can also bid on that.

But we're excited about it. I think actually it's a 12 year contract. And so that will just be incremental. But they have not decided the full field development plan for the permanent FPSO that will there. But if everything works out I'm sure we'll be bidding on that in a few years' time.

Male: Got it. And just a little more detail on that potential FPSO, would you say you're looking more to ship shape design or cylindrical design? And if I could also get some more color on the potential size of the deal and returns associated?

Peter Evensen: We'll talk more about the deal after we finalize, probably at Investor Day. But the good news is we're going to use one of our existing shuttle tankers. We're going to convert one that's called the Norvegia, which is one of our older shuttle tankers. And that will be the hull that we'll use to convert and make into an FPSO.

So we've done that before and obviously we just did it with the Salamander and so, and we just upgraded the Dampier Spirit, so whenever we can take one of our older tankers, or shuttle tankers, and convert it to an offshore unit it's just totally beneficial for Teekay, as well as the customer.

Male: Got it. That's all of mine. I'll turn the call over.

Peter Evensen: Thank you.

Operator: And your next question comes from the line of T.J. Shultz from RBC. Please go ahead.

T.J. Shultz: Hey, good morning. Just on the Knarr dropdown, would Teekay look to take back any TOO units there? And does that have any bearing on if you would drop it down in one sale or do you still think it needs to be two separate drops?

Peter Evensen: Hi, T.J. Yes, we're looking at those two options, whether we do it in one go or in two steps. And you're right, if we were to do it in one dropdown then the Teekay Parent would more likely take back some TO units, just given the size of that asset. So we are looking at both options right now.

T.J. Shultz: Okay. I mean, you know, I guess what's the gaining factor primarily? Is it still just TO's ability on financing it in one drop? You know, are you leaning one way or the other at this point?

Peter Evensen: Yes. I think we will have a better picture of that later in this year. I think it's dependent on, you're right, TO's ability to do it in one go, the state of the capital markets, etc. But we have both options available to us. We do have the debt facility already in place. It's a $815 million facility, so that would go along with the dropdown, whether it's 100% or 50% on a pro rata basis.

T.J. Shultz: Okay thanks.

Operator: And gentlemen there are no further questions at this time. I would like to turn the call back over to our speakers for closing remarks.

Peter Evensen: Okay. Thank you all for listening today and we look forward to reporting to you about all - everything in detail at our Investor Day. Thank you.

Operator: Ladies and gentlemen this concludes the conference call for today. We thank you for your participation. You may now disconnect your line and have a great day.

END