

Teekay Offshore Partners L.P.
Form 6-K
August 17, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015
Commission file number 1- 33198

TEEKAY OFFSHORE PARTNERS L.P.

(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

(Address of principal executive office)

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1). Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7). Yes No

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REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

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ITEM 1 - FINANCIAL STATEMENTS

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in thousands of U.S. dollars, except unit and per unit data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenues <i>(note 6)</i>	255,758	241,402	506,669	500,636
Voyage expenses	(20,716)	(26,256)	(43,233)	(59,710)
Vessel operating expenses <i>(note 6)</i>	(77,935)	(88,184)	(151,969)	(176,314)
Time-charter hire expense	(10,762)	(4,975)	(17,745)	(16,387)
Depreciation and amortization	(53,864)	(48,474)	(107,468)	(96,962)
General and administrative <i>(notes 6 and 11)</i>	(14,202)	(18,054)	(29,082)	(32,903)
(Write down) and gain on sale of vessels <i>(note 13)</i>	(500)		(14,353)	
Restructuring (charge) recovery	(135)	821	(135)	262
Income from vessel operations	77,644	56,280	142,684	118,622
Interest expense <i>(notes 5 and 6)</i>	(24,741)	(21,568)	(47,924)	(40,488)
Interest income	135	190	269	367
Realized and unrealized gains (losses) on derivative instruments <i>(note 7)</i>	42,282	(38,144)	(9,366)	(74,776)
Equity income	9,720	2,388	13,811	6,091
Foreign currency exchange gain (loss) <i>(note 7)</i>	2,789	(2,836)	(4,287)	(3,611)
Other income net <i>(note 3)</i>	388	72	647	462
Income (loss) before income tax expense	108,217	(3,618)	95,834	6,667
Income tax expense <i>(note 8)</i>	(353)	(182)	(1,198)	(1,445)
Net income (loss) and comprehensive income (loss)	107,864	(3,800)	94,636	5,222
Non-controlling interests in net income (loss)	3,638	1,654	7,636	3,333
Preferred unitholders' interest in net income (loss) <i>(note 10)</i>	4,791	2,719	7,510	5,438
General Partner's interest in net income (loss)	6,153	3,696	9,917	7,639
Limited partners' interest in net income (loss)	93,282	(11,869)	69,573	(11,188)
Limited partners' interest in net income (loss) per common unit:				
- basic <i>(note 10)</i>	1.01	(0.14)	0.75	(0.13)

- diluted (<i>note 10</i>)	1.01	(0.14)	0.75	(0.13)
Weighted-average number of common units outstanding:				
- basic	92,413,598	85,529,102	92,402,772	85,492,401
- diluted	92,457,480	85,529,102	92,470,600	85,492,401
Cash distributions declared per unit	0.5384	0.5384	1.0768	1.0768

Related party transactions (*note 6*)

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

Table of Contents**TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS**

(in thousands of U.S. dollars)

	As at June 30, 2015 \$	As at December 31, 2014 \$
ASSETS		
Current		
Cash and cash equivalents	242,764	252,138
Restricted cash (<i>note 7 and 9c</i>)	73,700	4,704
Accounts receivable, including non-trade of \$5,382 (December 31, 2014 - \$6,825)	117,085	103,665
Vessel held for sale (<i>note 13</i>)	5,000	
Net investments in direct financing leases - current (<i>note 3b</i>)	5,501	4,987
Prepaid expenses	34,503	30,211
Due from affiliates (<i>note 6c</i>)	37,856	44,225
Advances to joint venture (<i>note 14</i>)		5,225
Other current assets	14,644	4,626
Total current assets	531,053	449,781
Restricted cash - long-term (<i>note 7</i>)		42,056
Vessels and equipment		
At cost, less accumulated depreciation of \$1,272,587 (December 31, 2014 - \$1,202,663)	3,274,888	3,010,689
Advances on newbuilding contracts and conversion costs (<i>notes 9b, 9c, 9d, 9f, 9g, 12a and 12b</i>)	252,040	172,776
Net investments in direct financing leases (<i>note 3b</i>)	14,599	17,471
Investment in equity accounted joint ventures (<i>note 14</i>)	74,162	54,955
Derivative instruments (<i>note 7</i>)	5,240	4,660
Deferred tax asset	5,095	5,959
Other assets	75,224	51,362
Intangible assets net	5,400	6,410
Goodwill	129,145	129,145
Total assets	4,366,846	3,945,264
LIABILITIES AND EQUITY		
Current		
Accounts payable	12,902	15,064
Accrued liabilities (<i>notes 7 and 11</i>)	120,438	68,013

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Deferred revenues	25,901	25,669
Due to affiliates (<i>note 6c</i>)	143,742	108,941
Current portion of derivative instruments (<i>note 7</i>)	106,588	85,318
Current portion of long-term debt (<i>note 5</i>)	466,952	258,014
Current portion of in-process revenue contracts	12,779	12,744
Total current liabilities	889,302	573,763
Long-term debt (<i>note 5</i>)	2,195,010	2,178,009
Derivative instruments (<i>note 7</i>)	236,208	257,754
In-process revenue contracts	69,450	75,805
Other long-term liabilities	60,033	44,238
Total liabilities	3,450,003	3,129,569
Commitments and contingencies (<i>notes 5, 7, and 9</i>)		
Redeemable non-controlling interest (<i>note 9a</i>)	10,481	12,842
Equity		
Limited partners - common units (92.4 million units issued and outstanding at June 30, 2015 and December 31, 2014, respectively)	560,593	589,165
Limited partners - preferred units (11.0 million and 6.0 million units issued and outstanding at June 30, 2015 and December 31, 2014, respectively) (<i>note 10</i>)	267,685	144,800
General Partner	20,457	21,038
Partners equity	848,735	755,003
Non-controlling interests	57,627	47,850
Total equity	906,362	802,853
Total liabilities and equity	4,366,846	3,945,264

Subsequent events (*note 15*)

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

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

	Six Months Ended June 30,	
	2015	2014
	\$	\$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	94,636	5,222
Non-cash items:		
Unrealized (gain) loss on derivative instruments (<i>note 7</i>)	(855)	53,106
Equity income	(13,811)	(6,091)
Depreciation and amortization	107,468	96,962
Write-down and (gain) on sale of vessel (<i>note 13</i>)	14,353	
Deferred income tax expense (recovery) (<i>note 8</i>)	571	(223)
Amortization of in-process revenue contracts	(6,320)	(6,320)
Foreign currency exchange (gain) loss and other	(39,269)	371
Change in non-cash working capital items related to operating activities	15,192	(96,617)
Expenditures for dry docking	(5,145)	(9,468)
Net operating cash flow	166,820	36,942
FINANCING ACTIVITIES		
Proceeds from long-term debt (<i>note 5</i>)	410,374	720,443
Scheduled repayments of long-term debt (<i>note 5</i>)	(150,949)	(241,223)
Prepayments of long-term debt (<i>note 5</i>)	(13,606)	(302,413)
Debt issuance costs	(4,554)	(10,094)
Decrease in restricted cash (<i>note 7</i>)	15,140	
Proceeds from issuance of common units		7,784
Proceeds from issuance of preferred units	125,000	
Expenses relating to equity offerings	(4,187)	(153)
Cash distributions paid by the Partnership	(115,460)	(107,197)
Settlement of contingent consideration liability (<i>note 3</i>)	(3,303)	
Cash distributions paid by subsidiaries to non-controlling interests	(5,720)	(5,718)
Equity contribution from joint venture partners	5,500	22,017
Indemnification on <i>Voyageur Spirit</i> FPSO from Teekay Corporation (<i>note 6f</i>)		3,474
Other	579	397
Net financing cash flow	258,814	87,317
INVESTING ACTIVITIES		
	(404,033)	(92,084)

Expenditures for vessels and equipment, including advances on newbuilding contracts and conversion costs		
Increase in restricted cash <i>(note 9c)</i>	(42,080)	
Proceeds from sale of vessel and equipment <i>(note 13)</i>	8,918	
Repayment from joint ventures <i>(note 14)</i>	5,225	
Direct financing lease payments received	2,358	2,582
Investment in equity accounted joint ventures <i>(note 14)</i>	(5,396)	
Acquisition of ALP Maritime Services B.V. (net of cash acquired of \$0.3 million) <i>(note 12a)</i>		(2,322)
Net investing cash flow	(435,008)	(91,824)
(Decrease) Increase in cash and cash equivalents	(9,374)	32,435
Cash and cash equivalents, beginning of the period	252,138	219,126
Cash and cash equivalents, end of the period	242,764	251,561

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

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars and units)

	PARTNERS EQUITY								
	Limited Partners					Non-		Redeemable	
	Common	Additional	Preferred	Preferred	General	controlling	Total	Non-	
	Units and	Paid-in Capital	Units	Units	Partner	Interests	Equity	controlling	
Common	Units	Units	Units	Partner	Interests	Equity	Interest		
Units	\$	#	\$	\$	\$	\$	\$		
Balance as at December 31, 2014	92,386	589,165	6,000	144,800	21,038	47,850	802,853	12,842	
Net income		69,573		7,510	9,917	7,636	94,636		
Reclassification of redeemable non-controlling interest in net income						(3,139)	(3,139)	3,139	
Cash distributions		(99,496)		(5,438)	(10,526)		(115,460)		
Distribution of capital to joint venture partner						(220)	(220)	(5,500)	
Contribution of capital from joint venture partner						5,500	5,500		
Proceeds from equity offerings, net of offering costs			5,000	120,813			120,813		
Equity based compensation and other (notes 6h and 11)	28	1,351			28		1,379		
Balance as at June 30, 2015	92,414	560,593	11,000	267,685	20,457	57,627	906,362	10,481	

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

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

1. Basis of Presentation

The unaudited interim 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, and its wholly owned or controlled subsidiaries (collectively, the *Partnership*).

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Partnership's audited consolidated financial statements for the year ended December 31, 2014, which are included in the Partnership's Annual Report on Form 20-F, filed with the U.S. Securities and Exchange Commission (or *SEC*) on April 2, 2015. In the opinion of management of the Partnership's general partner, Teekay Offshore GP L.L.C. (or the *General Partner*), these interim unaudited consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership's consolidated financial position, results of operations, changes in total equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. 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 the offshore oil platforms. Downtime for repairs and maintenance generally reduces oil production and, thus, transportation requirements. Significant intercompany balances and transactions have been eliminated upon consolidation.

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, 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 9a). 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.

2. Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (or *FASB*) issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (or *ASU 2014-08*), which raises the threshold for disposals to qualify as discontinued operations. A discontinued operation is now defined as: (i) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results; or (ii) an

acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. ASU 2014-08 was adopted on January 1, 2015. The impact, if any, of adopting ASU 2014-08 on the Partnership's financial statements will depend on the occurrence and nature of disposals that occur after ASU 2014-08 is adopted.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (or ASU 2014-09). ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016 and shall be applied, at the Partnership's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. The Partnership is evaluating the effect of adopting this new accounting guidance.

In February 2015, the FASB issued Accounting Standards Update 2015-02, *Amendments to the Consolidation Analysis* (or ASU 2015-02) which eliminates the deferral of certain consolidation standards for entities considered to be investment companies, modifies the consolidation analysis performed on limited partnerships and modifies the impact of fee arrangements and related parties on the determination of the primary beneficiary of a variable interest entity. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. ASU 2015-02 may be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply ASU 2015-02 retrospectively. The Partnership is evaluating the effect of adopting this new accounting guidance.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (or ASU 2015-03) which require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for interim and annual periods beginning after December 15, 2015 and is to be applied on a retrospective basis. The Partnership is evaluating the effect of adopting this new accounting guidance.

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

3. Financial Instruments**a) Fair Value Measurements**

For a description of how the Partnership estimates fair value and for a description of the fair value hierarchy levels, see Note 4 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014. 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.

	Fair Value Hierarchy Level	June 30, 2015		December 31, 2014	
		Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$	Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$
Recurring:					
Cash and cash equivalents and restricted cash	Level 1	316,464	316,464	298,898	298,898
Logitel contingent consideration (see below)	Level 3	(15,292)	(15,292)	(21,448)	(21,448)
Derivative instruments (note 7)					
Interest rate swap agreements	Level 2	(194,252)	(194,252)	(216,488)	(216,488)
Cross currency swap agreements	Level 2	(140,557)	(140,557)	(120,503)	(120,503)
Foreign currency forward contracts	Level 2	(10,150)	(10,150)	(11,268)	(11,268)
Other:					
Long-term debt - public (note 5)	Level 1	(669,277)	(637,129)	(689,157)	(656,899)
Long-term debt - non-public (note 5)	Level 2	(1,992,685)	(1,974,978)	(1,746,866)	(1,743,378)

Contingent consideration liability In August 2014, the Partnership acquired 100% of the outstanding shares of Logitel Offshore Holding AS (*Logitel*), a Norway-based company focused on high-end Units for Maintenance and Safety (or *UMS*), from Cefront Technology AS (*Cefront*) for \$4 million, which was paid in cash at closing, plus a potential additional amount of up to \$27.6 million, depending on certain performance criteria, which is payable from mid-2015 to early-2018 (see note 12b).

The Partnership will owe an additional amount of up to \$27.6 million if there are no yard cost overruns and no charterer late delivery penalties; the two unchartered UMS under construction are chartered above specified rates; and no material defects from construction are identified within one year after the delivery of each UMS. To the extent such

events occur, the potential additional amount of \$27.6 million will be reduced in accordance with the terms of the purchase agreement. The estimated fair value of the contingent consideration liability of \$15.3 million at June 30, 2015 is the amount the Partnership expects to pay to Cefront discounted to its present value using a weighted average cost of capital rate of 11.5%. As of June 30, 2015, the amount of the expected payments for each UMS was based upon the status of the construction project for the remaining two UMS newbuildings, the state of the charter market for the remaining two UMS newbuildings, the expectation of potential material defects for each UMS, and, to a lesser extent, the timing of delivery of the remaining two UMS newbuildings. An increase (decrease) in the Partnership's estimates of yard cost overruns, charterer late delivery penalties, material defects and the discount rate, as well as a decrease (increase) in the Partnership's estimates of day rates at which it expects to charter the two unchartered UMS, will decrease (increase) the estimated fair value of the contingent consideration liability.

Changes in the estimated fair value of the Partnership's contingent consideration liability relating to the acquisition of Logitel, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), during the three and six months ended June 30, 2015 and 2014 are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	Asset (Liability)		Asset (Liability)	
	\$	\$	\$	\$
Balance at beginning of period	(21,562)		(21,448)	
Settlement of liability	3,540		3,540	
Adjustment to liability (<i>note 12b</i>)	2,569		2,569	
Unrealized gain included in Other income - net	161		47	
Balance at end of period	(15,292)		(15,292)	

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	June 30,	December 31,
			2015	2014
			\$	\$
Direct financing leases	Payment activity	Performing	20,100	22,458

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(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

4. Segment Reporting

The following table includes results for the Partnership's shuttle tanker segment; floating production, storage and off-loading (or *FPSO*) unit segment; floating storage and off-take (or *FSO*) unit segment; conventional tanker segment; towage segment; and UMS segment for the periods presented in these consolidated financial statements.

Three months ended June 30, 2015	Shuttle	FPSO	Conventional			UMS	Total
	Tanker		FSO	Tanker	Towage		
	Segment	Segment	Segment	Segment	Segment	Segment ⁽¹⁾	
Revenues	132,899	86,246	14,165	8,245	10,517	3,686	255,758
Voyage expenses	(18,976)		(89)	(647)	(1,004)		(20,716)
Vessel operating expenses	(31,120)	(33,557)	(6,921)	(1,514)	(3,697)	(1,126)	(77,935)
Time-charter hire expense	(10,762)						(10,762)
Depreciation and amortization	(26,795)	(19,844)	(2,975)	(1,675)	(2,174)	(401)	(53,864)
General and administrative ⁽²⁾	(6,788)	(5,011)	(420)	(507)	(837)	(639)	(14,202)
Write down of vessel						(500)	(500)
Restructuring charge	(135)						(135)
Income from vessel operations	38,323	27,834	3,760	3,902	2,805	1,020	77,644

Three months ended June 30, 2014	Shuttle	FPSO	Conventional			Total
	Tanker		FSO	Tanker	Towage	
	Segment	Segment	Segment	Segment	Segment	
Revenues	137,042	83,984	11,673	8,600	103	241,402
Voyage expenses	(24,913)		(149)	(1,188)	(6)	(26,256)
Vessel operating expenses	(39,715)	(39,472)	(7,532)	(1,465)		(88,184)
Time-charter hire expense	(4,975)					(4,975)
Depreciation and amortization	(27,378)	(18,186)	(1,298)	(1,612)		(48,474)
General and administrative ⁽²⁾	(6,532)	(7,989)	(1,027)	(312)	(2,194)	(18,054)
Restructuring recovery ⁽³⁾	821					821
Income (loss) from vessel operations	34,350	18,337	1,667	4,023	(2,097)	56,280

Six months ended June 30, 2015	Shuttle	FPSO	Conventional			UMS	Total
	Tanker		FSO	Tanker	Towage		
	Segment	Segment	Segment	Segment	Segment	Segment ⁽¹⁾	
Revenues	270,989	170,449	28,651	16,307	16,587	3,686	506,669

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Voyage expenses	(38,505)		(221)	(1,215)	(3,292)		(43,233)
Vessel operating expenses	(65,437)	(64,790)	(13,280)	(2,888)	(4,448)	(1,126)	(151,969)
Time-charter hire expense	(17,083)				(662)		(17,745)
Depreciation and amortization	(55,162)	(39,939)	(5,895)	(3,349)	(2,722)	(401)	(107,468)
General and administrative ⁽²⁾	(15,187)	(9,813)	(1,030)	(759)	(1,147)	(1,146)	(29,082)
(Write down) and gain on sale of vessel	(13,853)					(500)	(14,353)
Restructuring charge	(135)						(135)
Income from vessel operations	65,627	55,907	8,225	8,096	4,316	513	142,684

Six months ended June 30, 2014	Shuttle		Conventional			Total
	Tanker Segment	FPSO Segment ⁽⁵⁾	FSO Segment	Tanker Segment	Towage Segment	
Revenues	290,222	167,121	25,962	17,228	103	500,636
Voyage expenses	(56,619)		(172)	(2,913)	(6)	(59,710)
Vessel operating expenses	(80,121)	(79,863)	(13,405)	(2,925)		(176,314)
Time-charter hire expense	(16,387)					(16,387)
Depreciation and amortization	(54,659)	(36,089)	(2,991)	(3,223)		(96,962)
General and administrative ⁽²⁾⁽⁴⁾	(13,142)	(13,747)	(1,886)	(845)	(3,283)	(32,903)
Restructuring recovery ⁽³⁾	262					262
Income (loss) from vessel operations	69,556	37,422	7,508	7,322	(3,186)	118,622

- (1) The Partnership acquired 100% of the outstanding shares of Logitel during the third quarter of 2014 (see notes 3a and 12b).
- (2) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of corporate resources).

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- (3) Restructuring recovery of \$0.8 million for the three and six months ended June 30, 2014 related to a reimbursement received during the second quarter of 2014, for the reorganization of the Partnership's shuttle tanker marine operations, which were completed during 2013. Restructuring charge of \$0.6 million for the six months ended June 30, 2014 related to the reflagging of one shuttle tanker which commenced in January 2014 and was completed in March 2014.
- (4) Includes a \$1.6 million business development fee to Teekay Corporation in connection with the acquisition of ALP Maritime Services B.V. (or *ALP*), for the six months ended June 30, 2014 in the towage segment (see notes 6b and 12a).
- (5) Income from vessel operations for the six months ended June 30, 2014 excludes \$3.1 million of the *Voyageur Spirit* FPSO unit indemnification payments received by the Partnership from Teekay Corporation relating to the production shortfall during the period January 1, 2014 through February 21, 2014 and a further \$0.4 million relating to unreimbursed vessel operating expenses incurred before the unit was declared on-hire as of February 22, 2014. These indemnification payments received by the Partnership from Teekay Corporation have effectively been treated as a reduction to the purchase price of the *Voyageur Spirit* (see note 6f).

A reconciliation of total segment assets to total assets presented in the accompanying consolidated balance sheets is as follows:

	June 30, 2015	December 31, 2014
	\$	\$
Shuttle tanker segment	1,827,194	1,936,809
FPSO segment	1,259,634	1,267,076
FSO segment	267,157	133,925
Conventional tanker segment	138,235	150,109
Towage segment	260,047	61,795
UMS segment	287,930	62,017
Unallocated:		
Cash and cash equivalents and restricted cash	316,464	298,898
Other assets	10,185	34,635
Consolidated total assets	4,366,846	3,945,264

5. Long-Term Debt

	June 30, 2015	December 31, 2014
	\$	\$

U.S. Dollar-denominated Revolving Credit Facilities due through 2019	560,504	544,969
Norwegian Kroner Bonds due through 2019	369,277	389,157
U.S. Dollar-denominated Term Loans due through 2018	137,378	158,547
U.S. Dollar-denominated Term Loans due through 2025	1,076,820	850,433
U.S. Dollar Non-Public Bond due through 2024	217,983	192,917
U.S. Dollar Bonds due through 2019	300,000	300,000
Total	2,661,962	2,436,023
Less current portion	466,952	258,014
Long-term portion	2,195,010	2,178,009

As at June 30, 2015, the Partnership had six long-term revolving credit facilities, which, as at such date, provided for total borrowings of up to \$560.5 million, which were fully drawn as of June 30, 2015. The total amount available under the revolving credit facilities reduces by \$70.5 million (remainder of 2015), \$203.7 million (2016), \$102.8 million (2017), \$136.2 million (2018) and \$47.3 million (2019). Four 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 20 of the Partnership's vessels, together with other related security.

In January 2014, the Partnership issued Norwegian Kroner (or *NOK*) 1,000 million in senior unsecured bonds that mature in January 2019 in the Norwegian bond market. As of June 30, 2015, the carrying amount of the bonds was \$127.3 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 4.25%. The Partnership entered into a cross currency swap to swap all interest and principal payments into US Dollars, with the interest payments fixed at a rate of 6.42%, and the transfer of the principal amount fixed at \$162.2 million upon maturity in exchange for NOK 1,000 million (see note 7).

In January 2013, the Partnership issued NOK 1,300 million in senior unsecured bonds in the Norwegian bond market. The bonds were issued in two tranches maturing in January 2016 (NOK 500 million) and January 2018 (NOK 800 million). As at June 30, 2015, the carrying amount of the bonds was \$165.5 million. The bonds are listed on the Oslo Stock Exchange. Interest payments on the tranche maturing in 2016 are based on NIBOR plus a margin of 4.00%. Interest payments on the tranche maturing in 2018 are based on NIBOR plus a margin of 4.75%. The Partnership entered into cross currency rate swaps to swap all interest and principal payments into US Dollars, with interest payments fixed at a rate of 4.94% on the tranche maturing in 2016 and 6.07% on the tranche maturing in 2018 and the transfer of the principal amount fixed at \$89.7 million upon maturity in exchange for NOK 500 million on the tranche maturing in 2016 and fixed at \$143.5 million upon maturity in exchange for NOK 800 million on the tranche maturing in 2018 (see note 7).

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In January 2012, the Partnership issued NOK 600 million in senior unsecured bonds that mature in January 2017 in the Norwegian bond market. As at June 30, 2015, the carrying amount of the bonds was \$76.4 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 U.S. dollars, 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 7).

As at June 30, 2015, three of the Partnership's 50%-owned subsidiaries each had an outstanding term loan, which totaled \$137.4 million. The term loans reduce over time with quarterly and semi-annual payments and have varying maturities through 2018. These term loans are collateralized by first-priority mortgages on the three shuttle tankers to which the loans relate, together with other related security. As at June 30, 2015, the Partnership had guaranteed \$33.9 million of these term loans, which represents its 50% share of the outstanding term loans of two of these 50%-owned subsidiaries. The other owner and Teekay Corporation have guaranteed \$68.7 million and \$34.8 million, respectively.

As at June 30, 2015, the Partnership had term loans outstanding for the shuttle tankers the *Amundsen Spirit*, the *Nansen Spirit*, the *Peary Spirit*, the *Scott Spirit*, the *Samba Spirit* and the *Lambada Spirit*, for the *Suksan Salamander* FSO unit, for the *Piranema Spirit* and the *Voyageur Spirit* FPSO units, for the *ALP Guard*, the *ALP Winger*, the *ALP Centre*, the *ALP Ippon*, and the *ALP Ace* towing vessels, and for the *Arendal Spirit* UMS, which totaled \$1.1 billion. For the term loans relating to 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 \$29.0 million due in 2022 and \$29.1 million due in 2023, respectively. The other term loans reduce over time with quarterly or semi-annual payments. These term loans have varying maturities through 2025 and are collateralized by first-priority mortgages on the vessels to which the loans relate, together with other related security. As at June 30, 2015, the Partnership had guaranteed \$768.4 million of these term loans and Teekay Corporation had guaranteed \$308.4 million.

In February 2015, the Partnership issued \$30.0 million in senior bonds that mature in June 2024 in a U.S. private placement. As of June 30, 2015, the carrying amount of the bonds was \$28.9 million. The interest payments on the bonds are fixed at a rate of 4.27%. The bonds are collateralized by first-priority mortgage on the *Dampier Spirit* FSO unit to which the bonds relate, together with other related security.

In August 2014, the Partnership assumed Logitel's obligations under a bond agreement from Sevan Marine ASA (or *Sevan*) as part of the Logitel acquisition. The bonds are retractable at par at any time by the Partnership. As of June 30, 2015, the carrying amount of the bonds was \$28.2 million.

In September 2013 and November 2013, the Partnership issued a total of \$174.2 million of ten-year senior unsecured bonds that mature in December 2023 and that were issued in a U.S. private placement to finance the *Bossa Nova Spirit* and the *Sertanejo Spirit* shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security. The Partnership makes semi-annual repayments on the bonds and as of June 30, 2015, the carrying amount of

the bonds was \$160.8 million.

In May 2014, the Partnership issued \$300.0 million in five-year senior unsecured bonds that mature in July 2019 in the U.S. bond market. As of June 30, 2015, the carrying amount of the bonds was \$300.0 million. The bonds are listed on the New York Stock Exchange. The interest payments on the bonds are fixed at a rate of 6.0%.

Interest payments on the revolving credit facilities and the term loans are based on LIBOR plus margins. At June 30, 2015 and December 31, 2014, the margins ranged between 0.3% and 3.25%. The weighted-average effective interest rate on the Partnership's variable rate long-term debt as at June 30, 2015 was 3.3% (December 31, 2014 - 3.5%). This rate does not include the effect of the Partnership's interest rate swaps (see note 7).

The aggregate annual long-term debt principal repayments required to be made subsequent to June 30, 2015 are \$164.0 million (remainder of 2015), \$441.3 million (2016), \$457.0 million (2017), \$476.1 million (2018), \$602.0 million (2019), and \$521.6 million (thereafter).

The Partnership and a subsidiary of Teekay Corporation are borrowers under a loan arrangement and are jointly and severally liable for the obligations to the lender. The obligations resulting from long-term debt joint and several liability arrangements are measured at the sum of the amount the Partnership agreed to pay, on the basis of its arrangement with the co-obligor, and any additional amount the Partnership expects to pay on behalf of the co-obligor. As of June 30, 2015, this loan arrangement had an outstanding balance of \$86.6 million, of which \$51.6 million was the Partnership's obligation. Teekay Corporation has indemnified the Partnership in respect of any losses and expenses arising from any breach by the co-obligor of the terms and conditions of the loan facility.

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 two revolving credit facilities and two term loans that require the Partnership to maintain vessel values to drawn principal balance ratios of a minimum range of 105% to 125%. As at June 30, 2015, these ratios ranged from 133% to 204%. The vessel values used in these ratios are appraised values provided by third parties where available, or are prepared by the Partnership based on second-hand sale and purchase market data. Changes in the conventional or shuttle tanker, towing or UMS markets could negatively affect these ratios.

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As at June 30, 2015, the Partnership and Teekay Corporation were in compliance with all covenants related to the credit facilities and long-term debt.

6. Related Party Transactions and Balances

- a) During the three and six months ended June 30, 2015, four conventional tankers, two shuttle tankers and three FSO units of the Partnership were employed on long-term time-charter-out or bareboat contracts with subsidiaries of Teekay Corporation.
- b) Teekay Corporation and its wholly-owned subsidiaries provide substantially all of the Partnership's commercial, technical, crew training, strategic, business development and administrative service 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. Such related party transactions were as follows for the periods indicated:

	Three Months Ended June 30		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenues ⁽¹⁾	17,490	16,427	34,819	33,757
Vessel operating expenses ⁽²⁾	(10,412)	(10,182)	(19,850)	(19,830)
General and administrative ⁽³⁾⁽⁴⁾	(8,235)	(10,252)	(16,062)	(18,540)
Interest expense ⁽⁵⁾	(112)	(112)	(223)	(223)

- (1) Includes revenue from time-charter-out or bareboat contracts with subsidiaries or affiliates of Teekay Corporation, including management fees from ship management services provided by the Partnership to a subsidiary of Teekay Corporation.
- (2) Includes ship management and crew training services provided by Teekay Corporation.
- (3) Includes 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) Includes a \$1.6 million business development fee paid to Teekay Corporation in connection with the acquisition of ALP during the three and six months ended June 30, 2014.
- (5) Includes a guarantee fee related to the final bullet payment of the *Piranema Spirit* FPSO debt facility guaranteed by Teekay Corporation and interest expense incurred on due to affiliates balances.

- c) At June 30, 2015, due from affiliates totaled \$37.9 million (December 31, 2014 - \$44.2 million) and due to affiliates totaled \$143.7 million (December 31, 2014 - \$108.9 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.
- d) In May 2013, the Partnership entered into a ten-year charter contract, plus extension options, with Salamander Energy plc (or *Salamander*) to supply an FSO unit in Asia. The Partnership converted its 1993-built shuttle tanker, the *Navion Clipper*, into an FSO unit, which commenced its charter contract with Salamander in August 2014. The Partnership received project management and execution services from certain subsidiaries of Teekay Corporation relating to the FSO conversion. These costs were capitalized and are included in vessels and equipment. Project management and execution costs paid to Teekay Corporation subsidiaries amounted to \$3.5 million.
- e) In May 2013, the Partnership entered into an agreement with Statoil ASA (or *Statoil*), on behalf of the field license partners, to provide an FSO unit for the Gina Krog oil and gas field located in the North Sea. The contract will be serviced by a new FSO unit that is being converted from the *Randgrid* shuttle tanker, which the Partnership currently owns through a 67%-owned subsidiary and which the Partnership intends to acquire full ownership (note 9a) prior to its conversion. The Partnership received project management and engineering services from certain subsidiaries of Teekay Corporation relating to this FSO unit conversion. These costs are capitalized and included as part of advances on newbuilding contracts and will be reclassified to vessels and equipment upon completion of the conversion in early-2017. Project management and engineering costs paid to Teekay Corporation subsidiaries amounted to \$3.7 million as of June 30, 2015.
- f) On May 2, 2013, the Partnership acquired from Teekay Corporation its 100% interest in Voyageur LLC, which owns the *Voyageur Spirit* FPSO unit, which operates on the Huntington Field in the North Sea under a five-year contract, plus up to 10 one-year extension options, with E.ON Ruhrgas UK GP Limited (or *E.ON*), for an original purchase price of \$540.0 million. Due to a defect encountered in one of its two gas compressors, the FPSO unit was unable to achieve final acceptance by E.ON within the allowable timeframe, resulting in the FPSO unit being declared off-hire by the charterer retroactive to April 13, 2013.

On September 30, 2013, the Partnership entered into an interim agreement with E.ON whereby the Partnership was compensated for production beginning August 27, 2013 until the receipt of final acceptance by E.ON. Until receipt of final acceptance, Teekay Corporation agreed to indemnify the Partnership for certain production shortfalls and unreimbursed vessel operating expenses. For the period from April 13, 2013 to December 31, 2013, Teekay Corporation indemnified the Partnership a total of \$34.9 million for production shortfalls and unreimbursed repair costs. During 2014, Teekay Corporation indemnified the Partnership for a further \$3.5 million for production shortfalls and unrecovered repair costs to address the compressor issues, and paid another \$2.7 million in late-2014 relating to a final settlement of pre-acquisition capital expenditures for the *Voyageur Spirit* FPSO unit. On April 4, 2014, the Partnership received the certificate of final acceptance from the charterer, which declared the unit on-hire retroactive to February 22, 2014.

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Amounts paid as indemnification from Teekay Corporation to the Partnership were effectively treated as a reduction in the purchase price paid by the Partnership for the FPSO unit. The original purchase price of \$540.0 million has effectively been reduced to \$503.1 million (\$273.1 million net of assumed debt of \$230.0 million) to reflect total indemnification payments from Teekay Corporation of \$41.1 million, partially offset by the excess value of \$4.3 million relating to the 1.4 million common units the Partnership issued as part of the purchase price to Teekay Corporation on the date of closing of the transaction in May 2013 compared to the value of the common units at the date Teekay Corporation offered to sell the FPSO unit to the Partnership. The excess of the purchase price (net of assumed debt) over the book value of the net assets of \$201.8 million has been accounted for as an equity distribution to Teekay Corporation of \$71.4 million.

- g) On June 10, 2013, the Partnership acquired Teekay Corporation's 50% interest in OOG-TKP FPSO GmbH & Co KG, a joint venture with Odebrecht Oil & Gas S.A. (or *Odebrecht*), which owns the Cidade de Itajai (or *Itajai*) FPSO unit, for a cash purchase price of \$53.8 million. The Partnership's investment in the *Itajai* FPSO unit is accounted for using the equity method.

The purchase price was based on an estimate of the fully built-up cost of the *Itajai* FPSO unit, including certain outstanding contractual items. During 2014, the joint venture received in connection with the resolution of these contractual items an aggregate of \$6.1 million in reimbursements from the charterer and insurer, which was originally deducted from the Partnership's purchase price of the *Itajai* FPSO unit. Accordingly, the Partnership remitted this reimbursed amount to Teekay Corporation.

- h) The long-term bareboat contracts relating to two conventional tankers of the Partnership with a joint venture in which Teekay Corporation has a 50% interest were novated under the same terms to a subsidiary of Teekay Corporation in January 2014 and March 2014, respectively. The excess of the contractual rates over the market rates at the time of the novations were \$0.3 million and \$0.6 million, respectively, for the three and six months ended June 30, 2015, and \$0.3 million and \$0.4 million, respectively, for the three and six months ended June 30, 2014, and are accounted for as an equity contributions from Teekay Corporation.
- i) In December 2014, the Partnership entered into an agreement with a consortium led by Queiroz Galvão Exploração e Produção SA (or *QGEP*) to provide an FPSO unit for the Atlanta field located in the Santos Basin offshore Brazil. In connection with the contract with QGEP, the Partnership acquired the *Petrojarl I* FPSO from Teekay Corporation for a purchase price of \$57 million. The purchase price was financed by means of an intercompany loan payable to a subsidiary of Teekay Corporation, which was repaid in July, 2015. Interest payments on the loan are based on a fixed rate of 6.5%. The *Petrojarl I* is currently undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard in the Netherlands for an estimated cost of approximately \$231 million, which includes the cost of acquiring the *Petrojarl I*. The

excess of the purchase price over Teekay Corporation's carrying value of the *Petrojarl I* FPSO unit has been accounted for as an equity distribution to Teekay Corporation of \$12.4 million in 2014.

7. Derivative Instruments and Hedging Activities

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. The Partnership has not designated, for accounting purposes, any of the foreign currency forward contracts held during the six months ended June 30, 2015 as cash flow hedges.

As at June 30, 2015, the Partnership was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (thousands)	Fair Value / Carrying Amount of Asset (Liability)	Average Forward Rate ⁽¹⁾	Expected Maturity (in thousands of U.S. Dollars)		
		Non-hedge (in thousands of U.S. Dollars)		2015	2016	2017
Norwegian Kroner	608,500	(9,610)	7.01	35,217	46,632	4,905
Euro	23,137	(593)	0.88	24,011	2,413	
Singapore Dollar	22,442	53	1.35		16,537	
		(10,150)				

(1) Average forward rate represents the contracted amount of foreign currency one U.S. Dollar will buy. In connection with its issuance of NOK bonds, the Partnership has entered into cross currency swaps pursuant to which it receives the principal amount in 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 NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. 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 NOK bonds due from 2016 through 2019. In addition, the cross currency swaps due from 2016 through 2019 economically hedge the interest rate exposure on the NOK bonds due from 2016 through 2019. The Partnership has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK bonds due from 2016 through 2019. As at June 30, 2015, the Partnership was committed to the following cross currency swaps:

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Notional Amount NOK (thousands)	Principal Amount USD (thousands)	Floating Rate Receivable Reference Rate	Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Asset (Liability) \$	Remaining Term (years)
600,000	101,351	NIBOR	5.75%	7.49%	(28,252)	1.6
500,000	89,710	NIBOR	4.00%	4.94%	(26,776)	0.6
800,000	143,536	NIBOR	4.75%	6.07%	(44,925)	2.6
1,000,000	162,200	NIBOR	4.25%	6.42%	(40,604)	3.6
					(140,557)	

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 U.S. Dollar LIBOR-denominated borrowings.

As at June 30, 2015, the Partnership was committed to the following interest rate swap agreements:

	Interest Rate Index	Notional Amount \$	Fair Value / Carrying Amount of Asset (Liability) \$	Weighted- Average Remaining Term (years)	Fixed Interest Rate (%) ⁽¹⁾
U.S. Dollar-denominated interest rate swaps ⁽²⁾	LIBOR	600,000	(142,385)	10.3	4.8
U.S. Dollar-denominated interest rate swaps ⁽³⁾	LIBOR	879,709	(42,431)	5.9	2.5
U.S. Dollar-denominated interest rate swaps ⁽⁴⁾	LIBOR	180,000	(9,436)	0.1	3.4
		1,659,709	(194,252)		

(1)

Excludes the margin the Partnership pays on its variable-rate debt, which as at June 30, 2015, ranged between 0.30% and 3.25%

- (2) Notional amount remains constant over the term of the swap.
- (3) Principal amount reduces quarterly or semi-annually.
- (4) The interest rate swap is being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2016 to 2028. The interest rate swap is subject to mandatory early termination in July 2015 whereby the swap will be settled based on its fair value at that time. Subsequent to June 30, 2015, \$90.0 million of this interest rate swap was terminated in July 2015 and the remaining \$90.0 million was rolled over until August 21, 2015.

As at June 30, 2015, the Partnership had multiple interest rate swaps and cross currency swaps governed by the same master agreement. Each of these master agreements provides for the net settlement of all swaps subject to that master agreement through a single payment in the event of default or termination of any one swap. The fair value of these interest rate swaps are presented on a gross basis in the Partnership's consolidated balance sheets. As at June 30, 2015, these interest rate swaps and cross currency swaps had an aggregate fair value liability amount of \$304.0 million. As at June 30, 2015, the Partnership had \$31.6 million on deposit with the relevant counterparties as security for swap liabilities under certain master agreements. The deposit is presented in restricted cash and restricted cash - long-term on the consolidated balance sheets.

Tabular disclosure

The following table presents the location and fair value amounts of the assets (liabilities) of the Partnership's derivative instruments, segregated by type of contract, on the Partnership's balance sheets.

	Derivative Assets \$	Accrued Liabilities \$	Current Portion of Derivative Liabilities \$	Derivative Liabilities \$
As at June 30, 2015				
Foreign currency contracts	430		(9,067)	(1,513)
Cross currency swaps		(1,483)	(33,648)	(105,426)
Interest rate swaps	4,810	(5,920)	(63,873)	(129,269)
	5,240	(7,403)	(106,588)	(236,208)

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As at December 31, 2014

Foreign currency contracts			(8,490)	(2,778)
Cross currency swaps		(1,105)	(6,496)	(112,902)
Interest rate swaps	4,660	(8,742)	(70,332)	(142,074)
	4,660	(9,847)	(85,318)	(257,754)

Realized and unrealized gains (losses) 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 gains (losses) on derivative instruments in the consolidated statements of income (loss). The effect of the losses on these derivatives on the consolidated statements of income (loss) is as follows:

	Three Months Ended June 30		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Realized (losses) gains relating to:				
Interest rate swaps	(11,775)	(13,997)	(24,073)	(28,060)
Foreign currency forward contracts	(2,571)	196	(5,824)	(302)
	(14,346)	(13,801)	(29,897)	(28,362)
Unrealized gains (losses) relating to:				
Interest rate swaps	50,415	(22,985)	19,414	(47,093)
Foreign currency forward contracts	6,213	(1,358)	1,117	679
	56,628	(24,343)	20,531	(46,414)
Total realized and unrealized gains (losses) on derivative instruments	42,282	(38,144)	(9,366)	(74,776)

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:

Three Months Ended June 30 **Six Months Ended June 30,**

	2015	2014	2015	2014
	\$	\$	\$	\$
Realized losses	(1,953)	(38)	(4,333)	(22)
Unrealized gains (losses)	12,525	(14,267)	(19,676)	(6,692)
Total realized and unrealized gains (losses) on currency swaps	10,572	(14,305)	(24,009)	(6,714)

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.

8. Income Tax

The components of the provision for income tax are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Current	(271)	(415)	(627)	(1,668)
Deferred	(82)	233	(571)	223
Income tax expense	(353)	(182)	(1,198)	(1,445)

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9. Commitments and Contingencies

- a) During 2010, an unrelated party contributed a 1995-built shuttle tanker, the *Randgrid*, to a subsidiary of the Partnership for a 33% equity interest in the subsidiary. 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. This redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at June 30, 2015.
- b) In May 2013, the Partnership entered into an agreement with Statoil, on behalf of the field license partners, to provide an FSO unit for the Gina Krog oil and gas field located in the North Sea. The contract will be serviced by a new FSO unit that will be converted from the *Randgrid* shuttle tanker, which the Partnership currently owns through a 67%-owned subsidiary and of which the Partnership intends to acquire full ownership prior to its conversion, which is expected to occur during the third quarter of 2015. The FSO conversion project is expected to cost approximately \$273 million, including amounts reimbursable upon delivery of the unit relating to installation and mobilization. As at June 30, 2015, payments made towards this commitment totaled \$84.6 million and the remaining payments required to be made are \$76.4 million (remainder of 2015), \$110.4 million (2016) and \$1.4 million (2017). Following scheduled completion of the conversion in early-2017, the FSO unit will commence operations under a three-year time-charter contract to Statoil, which includes 12 additional one-year extension options.
- c) In March 2014, the Partnership acquired 100% of the shares of ALP, a Netherlands-based provider of long-distance ocean towing and offshore installation services to the global offshore oil and gas industry. Concurrently with this transaction, the Partnership and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four state-of-the-art SX-157 Ulstein Design ultra-long distance towing and offshore installation vessel newbuildings. These vessels will be equipped with dynamic positioning capability and are scheduled for delivery in 2016. The Partnership has agreed to acquire these newbuildings for a total cost of approximately \$258 million. As at June 30, 2015, payments made towards these commitments totaled \$71.9 million and the remaining payments required to be made under these newbuilding contracts are \$50.8 million (remainder of 2015) and \$135.6 million (2016). The Partnership intends to finance the newbuilding installments primarily from long-term debt financing of \$177 million secured for these vessels in July 2015, and to a lesser extent, through existing liquidity and proceeds from equity issuances.

In October 2014, the Partnership, through its wholly-owned subsidiary ALP, agreed to acquire six on-the-water, long-distance towing and offshore installation vessels for approximately \$222 million. The vessels were built between 2006 and 2010 and are all equipped with dynamic positioning capabilities. The Partnership took delivery of five vessels during the six months ended June 30, 2015 for a total price of \$183.5 million, of which \$126.4 million was

debt financed and \$57.1 million was financed through existing liquidity. The seller is currently in dispute with the previous management company of these vessels. To avoid disruption to the charters of these vessels, the seller has agreed to place \$42.1 million of the purchase price, as security, in escrow accounts to cover any potential liability that the seller may incur resulting from settling this dispute. This has no impact on the Partnership. As at June 30, 2015, the Partnership recorded a restricted cash balance and a corresponding liability of \$42.1 million relating to these five vessels. As at June 30, 2015, payments made towards these commitments totaled \$183.5 million and the amount of the remaining payments required to be made is \$38.5 million (remainder of 2015) for the one additional vessel. In July 2015, the Partnership took delivery of the remaining vessel.

- d) In August 2014, the Partnership acquired 100% of the outstanding shares of Logitel, a Norway-based company focused on high-end UMS. Concurrently with this transaction, the Partnership acquired three UMS newbuildings ordered from COSCO (Nantong) Shipyard (*COSCO*) in China that are expected to cost a total of approximately \$550 million, including estimated site supervision costs and license fees to be paid to Sevan to allow for use of its cylindrical hull design in these UMS. As at June 30, 2015, payments made towards these commitments totaled \$170.2 million and the remaining payments required to be made under these newbuilding contracts were \$5.7 million (remainder of 2015), \$188.1 million (2016), \$173.8 million (2017) and \$11.8 million (2018). During the second quarter of 2015, the Partnership exercised its options to defer the delivery of its second UMS newbuilding by up to one year, and the delivery and all related construction work of its third UMS by 120 days. The Partnership took delivery of one UMS, the *Arendal Spirit*, in February 2015 and, subsequent to the options exercised, the remaining two units are scheduled to deliver in the third quarter of 2016 and the second quarter of 2017. The Partnership financed the *Arendal Spirit* through long-term debt financing and its existing liquidity and it intends to finance the remaining two UMS newbuilding payments primarily from expected long-term debt financing prior to their scheduled deliveries, and to a lesser extent, through existing liquidity and proceeds from equity issuances.
- e) In October 2014, the Partnership sold a 1995-built shuttle tanker, the *Navion Norvegia*, to a 50/50 joint venture with Odebrecht. The vessel is committed to a new FPSO conversion for the Libra field located in the Santos Basin offshore Brazil. The conversion project will be completed at Sembcorp Marine's Jurong Shipyard in Singapore and the FPSO unit is scheduled to commence operations in early-2017 under a 12-year fixed-rate contract with a consortium led by Petroleo Brasileiro SA (*Petrobras*). The FPSO conversion is expected to cost approximately \$1.0 billion. As at June 30, 2015, payments made by the joint venture towards these commitments totaled \$129.7 million and the remaining payments required to be made by the joint venture are \$356.2 million (remainder of 2015), \$497.8 million (2016) and \$25.5 million (2017). The Partnership intends to finance its share of the conversion through its existing liquidity, proceeds from equity issuances and through long-term debt financing within the joint venture. The joint venture secured a \$248 million short-term loan in late-2014, which was refinanced in July 2015 with a long-term debt facility of \$804 million for the FPSO unit.
- f) In December 2014, the Partnership acquired the *Petrojarl I* FPSO unit from Teekay Corporation for \$57 million (see note 6i) in an asset acquisition. The *Petrojarl I* is undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard in the Netherlands with an estimated cost of approximately \$231 million, which includes the cost of acquiring the *Petrojarl I*. The FPSO is scheduled to commence operations in the third quarter of 2016 under a five-year fixed-rate charter contract with QGEP. As at June 30, 2015, payments made towards these commitments, excluding the acquisition of the *Petrojarl I* FPSO unit from Teekay Corporation, totaled \$30.3 million and the remaining payments required to be made were \$116.3 million (remainder of 2015) and \$27.5 million (2016). The Partnership intends to finance the remaining upgrade payments through its existing liquidity, proceeds from equity issuances and long-term debt financing for the

FPSO unit. The Partnership secured a \$180 million long-term loan in June 2015 and made a partial draw down on the facility in July 2015 to finance the *Petrojarl I* upgrade payments.

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- g) In June 2015, the Partnership entered into 15-year contracts, plus extension options, with a group of oil companies to provide shuttle tanker services for oil production on the east coast of Canada. These contracts are initially being serviced by three third party-owned shuttle tankers currently operating on the east coast of Canada, which are chartered-in to the Partnership, of which one vessel is expected to be replaced by one of the Partnership's existing shuttle tankers, the *Navion Hispania*, during the third quarter of 2015. The Partnership has entered into contracts to construct three Suezmax DP2 shuttle tanker newbuildings for a fully built-up cost of approximately \$368 million, with an option to order one additional vessel. These vessels will replace the existing vessels servicing the east coast of Canada. The three newbuildings are expected to be delivered in the fourth quarter of 2017 through the first half of 2018. As at June 30, 2015, payments made towards these commitments totaled \$33.2 million and the remaining payments required to be made under these newbuilding contracts are \$3.2 million (remainder of 2015), \$55.2 million (2016), \$207.5 million (2017), and \$68.6 million (2018). The Partnership intends to finance the newbuilding installments through its existing liquidity and expects to secure long-term debt financing for these vessels prior to their scheduled deliveries.

10. Total Capital and Net Income Per Common Unit

At June 30, 2015, a total of 74.2% of the Partnership's common units outstanding were held by the public. The remaining common units, as well as the 2% general partner interest, were held by a subsidiary of Teekay Corporation. All of the Partnership's outstanding Series A Preferred Units (defined below), Series B Preferred Units (which were issued in April 2015) and Series C Preferred Units (which were issued in July 2015) are held by the public.

Net Income Per Common Unit

Limited partners' interest in net income per common unit—basic is determined by dividing net income, after deducting the amount of net income attributable to the non-controlling interests, the general partner's interest and the distributions on the Series A Preferred Units, the Series B Preferred Units and the Series C Preferred Units, by the weighted-average number of common units outstanding during the period. The distributions payable and paid on the preferred units for the three and six months ended June 30, 2015 were \$4.8 million and \$7.5 million, respectively, and \$2.7 million and \$5.4 million, respectively, for the three and six months ended June 30, 2014. The computation of limited partners' interest in net income per common unit—diluted assumes the exercise of all dilutive restricted units using the treasury stock method. The computation of limited partners' interest in net loss per common unit—diluted does not assume such exercises as the effect would be anti-dilutive.

The general partner's and common unitholders' interests in net income are calculated as if all net income 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; 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 Partnership's business including reserves for maintenance and replacement

capital expenditure, anticipated capital requirements and any accumulated distributions on, or redemptions of, the Series A Preferred Units, Series B Preferred Units and Series C Preferred Units. Unlike available cash, net income 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.

During the three months ended June 30, 2015 and 2014, cash distributions exceeded \$0.4025 per common unit and, consequently, the assumed distributions 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 common unit calculation. For more information on the increasing percentages to calculate the general partner's interest in net income, please refer to the Partnership's Annual Report on Form 20-F for the year ended December 31, 2014.

Pursuant to the partnership agreement, allocations to partners are made on a quarterly basis.

Preferred Units

Pursuant to the partnership agreement, distributions on the 7.25% Series A Cumulative Redeemable Preferred Units (the *Series A Preferred Units*) to preferred unitholders are cumulative from the date of original issue and are payable quarterly in arrears, when, as and if declared by the board of directors of the general partner. At any time on or after April 30, 2018, the Series A Preferred Units may be redeemed by the Partnership at a redemption price of \$25.00 per unit plus an amount equal to all accumulated and unpaid distributions to the date of redemption. These units are listed on the New York Stock Exchange.

In April 2015, the Partnership issued 5.0 million 8.50% Series B Cumulative Redeemable Preferred Units (the *Series B Preferred Units*) in a public offering for net proceeds of \$120.8 million. Pursuant to the partnership agreement, distributions on the Series B Preferred Units to preferred unitholders are cumulative from the date of original issue and are payable quarterly in arrears, when, as and if declared by the board of directors of the general partner. At any time on or after April 20, 2020, the Series B Preferred Units may be redeemed by the Partnership at a redemption price of \$25.00 per unit plus an amount equal to all accumulated and unpaid distributions to the date of redemption. These units are listed on the New York Stock Exchange.

See note 15b for information regarding the Partnership's Series C Convertible Preferred Units.

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11. Unit Based Compensation

During the six months ended June 30, 2015, a total of 14,603 common units, with an aggregate value of \$0.3 million, were granted and issued to the non-management directors of the general partner as part of their annual compensation for 2015.

The Partnership grants restricted unit-based compensation awards as incentive-based compensation to certain employees of Teekay Corporation's subsidiaries that provide services to the Partnership. During March 2015 and 2014, the Partnership granted restricted unit-based compensation awards with respect to 101,543 and 67,569 units, respectively, with aggregate grant date fair values of \$2.1 million for each period, based on the Partnership's closing unit price on the grant dates. Each restricted unit is equal in value to one of the Partnership's common units plus reinvested distributions from the grant date to the vesting date. Each award represents the specified number of the Partnership's common units plus reinvested distributions from the grant date to the vesting date. The awards vest equally over three years from the grant date. Any portion of an award that is not vested on the date of a recipient's termination of service is cancelled, unless their termination arises as a result of the recipient's retirement and, in this case, the award will continue to vest in accordance with the vesting schedule. Upon vesting, the awards are paid to each grantee in the form of common units or cash.

During the six months ended June 30, 2015, restricted unit-based awards with respect to a total of 48,488 common units with a fair value of \$1.5 million, based on the Partnership's closing unit price on the grant date, vested and the amount paid to the grantees was made by issuing 12,612 common units and by paying \$0.5 million in cash.

During the six months ended June 30, 2014, restricted unit-based awards with respect to a total of 20,988 common units with a fair value of \$0.6 million, based on the Partnership's closing unit price on the grant date, vested and the amount paid to the grantees was made by issuing 6,584 common units and by paying \$0.3 million in cash.

The Partnership recorded unit-based compensation expense of \$0.2 million and \$0.5 million, during the three months ended June 30, 2015 and 2014, respectively, and \$1.3 million and \$1.9 million, during the six months ended June 30, 2015 and 2014, respectively, in general and administrative expenses in the Partnership's consolidated statements of income (loss). As of June 30, 2015 and December 31, 2014, liabilities relating to cash settled restricted unit-based compensation awards of \$1.0 million, were recorded in accrued liabilities on the Partnership's consolidated balance sheets. As at June 30, 2015, the Partnership had \$1.5 million of non-vested awards not yet recognized, which the Partnership expects to recognize over a weighted average period of 1.3 years.

12. Acquisitions

a) Acquisition of ALP Maritime Services B.V.

On March 14, 2014, the Partnership acquired 100% of the shares of ALP. Concurrently with this transaction, the Partnership and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four state-of-the-art SX-157 Ulstein Design ultra-long distance towing and offshore installation vessel newbuildings. These vessels will be equipped with dynamic positioning capability and are scheduled for delivery in 2016. The Partnership is committed to acquire these newbuildings for a total cost of approximately \$258 million (see note 9c).

The Partnership acquired ALP for a purchase price of \$2.6 million, which was paid in cash, and also entered into an arrangement to pay additional compensation to three former shareholders of ALP if certain requirements are satisfied. This contingent compensation consists of \$2.4 million, which is payable upon the delivery and employment of ALP's four newbuildings, which are scheduled for delivery throughout 2016, and a further amount of up to \$2.6 million, which is payable if ALP's annual operating results from 2017 to 2021 meet certain targets. The Partnership has the option to pay up to 50% of this compensation through the issuance of common units of the Partnership. Each of the contingent compensation amounts are payable only if the three shareholders are employed by ALP at the time performance conditions are met. These contingent compensation costs were \$0.2 million and \$0.2 million, for the three months ended June 30, 2015 and 2014, respectively, and \$0.3 million and \$0.2 million, for the six months ended June 30, 2015 and 2014, respectively, and were recorded in general and administrative expenses in the Partnership's consolidated statements of income (loss). The Partnership also incurred a \$1.0 million fee to a third party associated with the acquisition of ALP in the first quarter of 2014 and a \$1.6 million business development fee to Teekay Corporation in the second quarter of 2014 for assistance with the acquisition, which were recognized in general and administrative expenses during 2014.

The acquisition of ALP was accounted for using the purchase method of accounting, based upon finalized estimates of fair value.

The following table summarizes the finalized estimates of fair values of the ALP assets acquired and liabilities assumed by the Partnership on the acquisition date.

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(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

	As at March 14, 2014
	\$
ASSETS	
Cash and cash equivalents	294
Other current assets	404
Advances on newbuilding contracts	164
Other assets - long-term	395
Goodwill (towage segment)	2,032
Total assets acquired	3,289
LIABILITIES	
Current liabilities	387
Other long-term liabilities	286
Total liabilities assumed	673
Net assets acquired	2,616
Consideration	2,616

The goodwill recognized in connection with the ALP acquisition is attributable primarily to the assembled workforce of ALP, including the employees' experience, skills and abilities. Operating results of ALP are reflected in the Partnership's financial statements commencing March 14, 2014, the effective date of the acquisition. From the date of acquisition to June 30, 2014, the Partnership recognized \$0.2 million of revenue and \$1.7 million of net loss resulting from this acquisition. The following table shows summarized consolidated pro forma financial information for the Partnership for the six months ended June 30, 2014, solely giving effect to the Partnership's acquisition of ALP as if it had taken place on January 1, 2013:

	Pro Forma Six Months ended June 30, 2014
	\$
Revenues	500,771
Net income	5,061
Limited partners' interest in net income per common unit:	
- Basic	(0.13)

b) Acquisition of Logitel Offshore Holding AS

On August 11, 2014, the Partnership acquired 100% of the outstanding shares of Logitel. The purchase price for the shares of Logitel consisted of \$4.0 million in cash paid at closing and a potential additional cash amount of \$27.6 million, subject to reductions of some or all of this potential additional amount if certain performance criteria are not met, primarily relating to the construction of the three UMS ordered from COSCO in China (see note 3a).

The Partnership committed to acquire three UMS ordered from COSCO for a total cost of approximately \$580 million, including estimated site supervision costs and license fees to be paid to Sevan to allow for use of its cylindrical hull design in these UMS (see note 9d), and \$30.0 million from the Partnership's assumption of Logitel's obligations under a bond agreement from Sevan. Prior to the acquisition, Logitel secured a three-year fixed-rate charter contract, plus extension options, with Petrobras in Brazil for the first UMS, the *Arendal Spirit*, which delivered in February 2015 and commenced its contract with Petrobras during the second quarter of 2015. The second UMS is currently under construction and in August 2014, the Partnership exercised one of its existing six options with COSCO to construct a third UMS. During the second quarter of 2015, the Partnership exercised its option to defer the delivery of its second UMS newbuilding by up to one year. During this period, COSCO will maintain and preserve this unit for the account of the Partnership, including the Partnership incurring interest at 5.0% per annum on the unpaid balance of the final yard installment. In addition, the Partnership exercised its option to defer the delivery and all related construction work of its third UMS by 120 days. The Partnership expects to secure charter contracts for the remaining two UMS newbuildings prior to their respective deferred deliveries in the third quarter of 2016 and the second quarter of 2017.

The Partnership has assumed Logitel's obligations under a bond agreement from Sevan as part of this acquisition. The bond is non-interest bearing and is repayable in amounts of \$10.0 million within six months of delivery of each of the three UMS ordered from COSCO, for a total of \$30.0 million. If Logitel orders additional UMS with the Sevan cylindrical design, Logitel will be required to pay Sevan up to \$11.9 million for each of the next three UMS ordered. If the fourth of six options with COSCO is not exercised by its option expiry date on November 30, 2016, Sevan has a one-time option to receive the remaining two options with COSCO.

The acquisition of Logitel was accounted for using the purchase method of accounting, based upon finalized estimates of fair value.

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The following table summarizes the preliminary and finalized valuations of the Logitel assets and liabilities on the acquisition date. The estimates of fair values of the Logitel assets acquired and liabilities assumed by the Partnership were finalized during the second quarter of 2015.

<i>(in thousands of U.S. dollars)</i>	Preliminary Valuation August 11, 2014	Adjustments	Final Valuation August 11, 2014
	\$	\$	\$
ASSETS			
Cash and cash equivalents	8,089		8,089
Prepaid expenses	640		640
Advances on newbuilding contracts	46,809	(2,239)	44,570
Intangible assets		1,000	1,000
Total assets acquired	55,538	(1,239)	54,299
LIABILITIES			
Accrued liabilities	4,098		4,098
Long-term debt	26,270	1,330	27,600
Total liabilities assumed	30,368	1,330	31,698
Net assets acquired	25,170	(2,569)	22,601
Cash consideration	4,000		4,000
Contingent consideration	21,170	(2,569)	18,601

Operating results of Logitel are reflected in the Partnership's financial statements commencing August 11, 2014, the effective date of acquisition. The following table shows summarized consolidated pro forma financial information for the Partnership for the six months ended June 30, 2014, solely giving effect to the Partnership's acquisition of Logitel as if it had taken place on January 1, 2013:

**Pro Forma
Six Months ended
June 30, 2014**

	\$
Revenues	500,636
Net income	4,460
Limited partners' interest in net income per common unit:	
- Basic	(0.14)
- Diluted	(0.14)

13. (Write-down) and Gain on Sale of Vessels and Vessel Held for Sale

During the six months ended June 30, 2015, the carrying value of one of the Partnership's 1992-built shuttle tankers was written down to its estimated fair value, using an appraised value. The write down was a result of the expected sale of the vessel. The Partnership's consolidated statement of income (loss) for the six months ended June 30, 2015, includes a \$1.7 million write-down related to this vessel. The write-down is included in the Partnership's shuttle tanker segment. As at June 30, 2015, the Partnership has classified this vessel as held for sale on its consolidated balance sheet.

During the six months ended June 30, 2015, the carrying value of one of the Partnership's 1999-built shuttle tankers was written down to its estimated fair value, using an appraised value. The write down was a result of a recent change in the operating plan of the vessel. The Partnership's consolidated statement of income (loss) for the six months ended June 30, 2015, includes a \$13.8 million write-down related to this vessel. The write-down is included in the Partnership's shuttle tanker segment.

During the six months ended June 30, 2015, the Partnership sold a 1997-built shuttle tanker, the *Navion Svenita*, for net proceeds of \$8.6 million. The Partnership's consolidated statement of income (loss) for the six months ended June 30, 2015 includes a \$1.6 million gain related to the sale of this vessel. This gain is included in the Partnership's shuttle tanker segment.

14. Investment in Equity Accounted Joint Ventures and Advances to Joint Venture

In October 2014, the Partnership sold a 1995-built shuttle tanker, the *Navion Norvegia*, to the OOG-TK Libra GmbH & Co KG (or *Libra Joint Venture*), a 50/50 joint venture with Odebrecht. The vessel is committed to a new FPSO unit conversion for the Libra field. The FPSO unit is scheduled to commence operations in early-2017 (see note 9e). In conjunction with the conversion project, the Libra Joint Venture entered into a \$248 million loan facility. The interest payments of the loan facility are based on LIBOR, plus margins which range between 2.00% to 2.65%. The final payment under the loan facility is due October 2015. The Partnership has guaranteed its 50% share of the loan facility.

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In June 2013, the Partnership acquired Teekay Corporation's 50% interest in OOG-TKP FPSO GmbH & Co KG, a joint venture with Odebrecht, which owns the *Itajai* FPSO unit (see note 6g). As at December 31, 2014, the Partnership advanced \$5.2 million to the joint venture, which was repaid during the six months ended June 30, 2015.

15. Subsequent Events

- a) In July 2015, the Partnership completed the acquisition of the *Petrojarl Knarr* FPSO unit from Teekay Corporation for a fully built-up cost of approximately \$1.26 billion. In June 2015, the *Petrojarl Knarr* completed all required operational testing and commenced its full charter rate under its six-year fixed-rate charter contract, plus extension options, on the Knarr oil and gas field in the North Sea where BG Norge Limited is the operator. The acquisition was initially financed through the assumption of an existing \$745 million long-term debt facility and a \$492 million convertible promissory note issued by the Partnership to Teekay Corporation. During July 2015, the Partnership repaid \$92 million, plus accrued interest, of the convertible promissory note to Teekay Corporation and exercised the mandatory conversion of \$300 million of the outstanding principal balance on the note into the Partnership's common units at a price of \$20.83 per common unit. The \$745 million long-term debt facility contains five-tranches with varying maturity dates from 2020 through 2026, of which the tranche maturing in 2020 includes a final bullet payment of \$40 million and all of which reduce over time with semi-annual payments, is collateralized by a first-priority mortgage over the *Petrojarl Knarr* FPSO unit and is guaranteed by the Partnership.
- b) In July 2015, the Partnership issued \$250 million of Series C Convertible Preferred Units (*the Series C Preferred Units*) at a price of \$23.95 per unit in a private placement. The Partnership used the net proceeds from the private placement to partially finance the acquisition of the *Petrojarl Knarr* FPSO unit from Teekay Corporation and the initial installments of the three shuttle tanker newbuildings for the east coast of Canada contract. The distribution rate for the Series C Preferred Units is 8.6% per annum and the Series C Preferred Units are convertible into the Partnership's common units on a one-for-one basis at any time after 18 months at a price of \$23.95 per unit. The Series C Preferred Units are also redeemable upon certain events. A summary description of the Series C Preferred Units is included in the Partnership's Report on Form 6-K filed with the SEC on July 6, 2015.

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

JUNE 30, 2015

PART I FINANCIAL INFORMATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are an international provider of marine transportation, oil production, storage, long-distance towing and offshore installation and maintenance and safety services to the offshore oil industry focusing on the deep-water offshore oil regions of the North Sea, Brazil and the east coast of Canada. We operate shuttle tankers, floating production, storage and off-loading (or *FPSO*) units, floating storage and off-take (or *FSO*) units, units for maintenance and safety (or *UMS*), long-distance towing and offshore installation vessels and conventional crude oil tankers. As at June 30, 2015, our fleet consisted of 34 shuttle tankers (including four chartered-in vessels and one HiLoad Dynamic Positioning (or *DP*) unit, seven FPSO units, seven FSO units, five long-distance towing and offshore installation vessels, one UMS and four conventional oil tankers, in which our interests range from 50% to 100%. In addition, in July we completed the acquisition of the *Petrojarl Knarr* FPSO unit and took delivery of the final on-the-water long-distance towing and offshore installation vessel. We also have four long-haul towing and offshore installation vessel newbuildings scheduled for delivery in 2016, three newbuilding shuttle tankers scheduled for delivery late-2017 to mid-2018 and two UMS newbuildings scheduled for delivery late-2016 to early-2017.

SIGNIFICANT DEVELOPMENTS

Acquisition of *Petrojarl Knarr* FPSO

In June 2011, Teekay Corporation entered into a contract with BG Norge Limited (or *BG*) to provide a harsh weather FPSO unit to operate in the North Sea. The contract is being serviced by a newbuilding FPSO unit, the *Petrojarl Knarr* (or *Knarr*), which commenced its charter contract with BG in March 2015 on partial charter rate. In June 2015, the *Knarr* completed its operational testing and commenced its full charter rate and on July 1, 2015, we completed the acquisition of the *Knarr* from Teekay Corporation. The purchase price for the *Knarr*, which is based on a fully built-up cost of approximately \$1.26 billion, was initially financed through our assumption of an existing \$745 million long-term debt facility and a \$492 million convertible promissory note issued by us to Teekay Corporation. During July 2015, we repaid \$92 million, plus accrued interest, of the convertible promissory note to Teekay Corporation and exercised the mandatory conversion of \$300 million of the outstanding principal balance on the note into our common units at a price of \$20.83 per common unit.

Delivery of UMS

In August 2014, we acquired Logitel Offshore Holdings Ltd. (*Logitel*), a Norway-based company focused on the high-end floating accommodation market and providing units for maintenance and safety. At the time of acquisition, Logitel was constructing three UMS newbuildings, based on the Sevan Marine ASA (*Sevan*) cylindrical hull design, at the COSCO (Nantong) Shipyard (*COSCO*) in China for a fully built-up cost of approximately \$580 million, including \$30.0 million from our assumption of Logitel's obligations under a bond agreement from Sevan. We currently hold options to order up to an additional four units. Prior to the acquisition, Logitel secured a three-year fixed-rate charter contract, plus extension options, with Petroleo Brasileiro SA (*Petrobras*) in Brazil for the first UMS, the *Arendal*

Spirit, which commenced its three-year time-charter contract during the second quarter of 2015.

During the second quarter of 2015, we exercised our options to defer delivery of our second UMS newbuilding by up to one year, and the delivery and all related construction work of our third UMS by 120 days. We expect to secure charter contracts for these newbuildings prior to their respective deferred deliveries in the third quarter of 2016 and the second quarter of 2017. We financed the *Arendal Spirit* through long-term debt financing and our existing liquidity and we intend to finance the remaining two UMS newbuilding payments through existing liquidity and proceeds from equity issuances and expect to secure long-term debt financing for the units prior to their scheduled deliveries.

Commenced East Coast of Canada Contract

In early-June 2015, we entered into long-term contracts with a group of companies to provide shuttle tanker services on the east coast of Canada. These 15-year contracts, plus extension options, are initially being serviced by three third-party owned shuttle tankers currently operating on the east coast of Canada, which are in-chartered by us. One of these vessels is expected to be replaced by one of our existing shuttle tankers, the *Navion Hispania*, during the third quarter of 2015. We have entered into shipbuilding contracts to construct three Suezmax-size, DP2 shuttle tanker newbuildings with a South Korean shipyard for a fully built-up cost of approximately \$368 million, with an option to order one additional vessel should a fourth vessel be required. The three ordered vessels are expected to be delivered in the fourth quarter of 2017 through the first half of 2018.

Delivery of Towage Vessels

In late-October 2014, we, through our wholly-owned subsidiary ALP Maritime Services B.V. (or *ALP*), agreed to acquire six modern on-the-water long-distance towing and offshore installation vessels for approximately \$222 million. The vessels were built between 2006 and 2010 and are all equipped with DP capabilities. We have taken delivery of all six vessels during 2015.

***Petrojarl Varg* contract extension**

In June 2015, the charterer of the *Petrojarl Varg* FPSO unit, Talisman Energy Norge AS, exercised an option to extend the contract period of the unit for an additional three years through June 2019. The charterer has one remaining option to extend the contract period for a further three years.

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Equity Issuances

In April 2015, we issued 5.0 million of our 8.50% Series B Cumulative Redeemable Preferred Units in a public offering for net proceeds of \$120.8 million. We used the net proceeds for general partnership purposes, including the funding of newbuilding installments, capital conversion projects and vessel acquisitions.

In July 2015, we issued 10.4 million of our 8.60% Series C Convertible Preferred Units in a private placement for proceeds of approximately \$250 million. We used the proceeds from the private placement to partially finance the acquisition of the *Petrojarl Knarr* FPSO unit from Teekay Corporation and the initial installments of the three shuttle tanker newbuildings for the east coast of Canada contract.

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 subsequent agreements, Teekay Corporation is obligated to offer to sell to us the *Petrojarl Foinaven* FPSO unit, an existing unit owned by Teekay Corporation and operating under a long-term contract in the North Sea, subject to approvals required from the charterer. The purchase price for the *Petrojarl Foinaven* would be based on its fair market value.

In May 2011, Teekay Corporation entered into a joint venture agreement with Odebrecht Oil & Gas S.A. (or *Odebrecht*) to jointly pursue FPSO projects in Brazil. Odebrecht is a well-established Brazil-based company that operates in the engineering and construction, petrochemical, bioenergy, energy, oil and gas, real estate and environmental engineering sectors, with over 180,000 employees and a presence in over 20 countries. Through the joint venture agreement, Odebrecht is a 50 percent partner with us in the *Cidade de Itajai* (or *Itajai*) FPSO unit and the *Libra* FPSO project.

Teekay Corporation owns two additional FPSO units, the *Hummingbird Spirit* FPSO and the *Petrojarl Banff* FPSO, which may also be offered to us in the future pursuant to the omnibus agreement.

RESULTS OF OPERATIONS

There are a number of factors that should be considered when evaluating our historical financial performance and assessing our future prospects and we use a variety of financial and operational terms and concepts when analyzing our results of operations. These can be found in Part I, Item 5 Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2014. In accordance with United States generally accepted accounting principles (or *GAAP*), we report gross revenues in our income statements and include voyage expenses among our operating expenses. However, ship-owners often base economic decisions regarding the deployment of their vessels upon anticipated time charter equivalent (or *TCE*) rates, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time charters and bareboat charters the customer usually pays the voyage expenses while under voyage charters and contracts of affreightment the shipowner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Accordingly, the discussion of revenue below focuses on net revenues (i.e. revenues less voyage expenses) and TCE rates for our reportable segments (other than our FPSO and UMS segments). TCE rates represent net revenues divided

by revenue days. Please read Item 1 Financial Statements: Note 4 Segment Reporting.

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

Shuttle Tanker Segment

As at June 30, 2015, our shuttle tanker fleet consisted of 32 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters, three shuttle tanker newbuildings, one shuttle tanker in lay-up, and the *HiLoad DP* unit. Of these 37 shuttle tankers, six were owned through 50%-owned subsidiaries, one through a 67%-owned subsidiary and four were chartered-in. The remaining vessels are owned 100% by us. All of these shuttle tankers, with the exception of the *HiLoad DP* unit, 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 commenced the FSO conversion of the *Randgrid* during the second quarter of 2015 and the vessel has been included in our FSO segment since June 9, 2015. During the first quarter of 2015, we sold the *Navion Svenita*. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Euro and Brazilian Real may result in significant decreases or increases, respectively, in our vessel operating expenses.

The following table presents our shuttle tanker segment's operating results for the three and six months ended June 30, 2015 and 2014, and compares its net revenues (which is a non-GAAP financial measure) for the three and six months ended June 30, 2015 and 2014, 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:

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Three Months Ended June 30,			
(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	2015	2014	% Change
Revenues	132,899	137,042	(3.0)
Voyage expenses	(18,976)	(24,913)	(23.8)
Net revenues	113,923	112,129	1.6
Vessel operating expenses	(31,120)	(39,715)	(21.6)
Time-charter hire expense	(10,762)	(4,975)	116.3
Depreciation and amortization	(26,795)	(27,378)	(2.1)
General and administrative ⁽¹⁾	(6,788)	(6,532)	3.9
Restructuring (charge) recovery	(135)	821	(116.4)
Income from vessel operations	38,323	34,350	11.6
Calendar-Ship-Days			
Owned Vessels	2,800	2,912	(3.8)
Chartered-in Vessels	257	116	121.6
Total	3,057	3,028	1.0

Six Months Ended June 30,			
(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	2015	2014	% Change
Revenues	270,989	290,222	(6.6)
Voyage expenses	(38,505)	(56,619)	(32.0)
Net revenues	232,484	233,603	(0.5)
Vessel operating expenses	(65,437)	(80,121)	(18.3)
Time-charter hire expense	(17,083)	(16,387)	4.2
Depreciation and amortization	(55,162)	(54,659)	0.9
General and administrative ⁽¹⁾	(15,187)	(13,142)	15.6
(Write down) and gain on sale of vessels	(13,853)		100.0
Restructuring (charge) recovery	(135)	262	(151.5)
Income from vessel operations	65,627	69,556	(5.6)
Calendar-Ship-Days			
Owned Vessels	5,672	5,792	(2.1)
Chartered-in Vessels	436	393	10.9
Total	6,108	6,185	(1.2)

(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). See the discussion under Other

Operating Results below.

The average size of our owned shuttle tanker fleet decreased for the three and six months ended June 30, 2015 compared to the same periods last year, primarily due to the sale of the *Navion Norvegia* and the *Navion Svenita* in October 2014 and March 2015, respectively, and the commencement of the FSO conversion of the *Randgrid* in June 2015, partially offset by the delivery of the *HiLoad DP* unit in April 2014. Three shuttle tanker newbuildings have been excluded from calendar-ship-days until they are delivered to us.

The average size of our chartered-in shuttle tanker fleet increased for the three and six months ended June 30, 2015 compared to the same periods last year, primarily due to the in-chartering of three shuttle tankers, the *Karen Knutsen*, the *Heather Knutsen*, and the *Mattea* for the east coast of Canada contract, which commenced in June 2015, partially offset by redeliveries to their owners of the *Grena Knutsen* in June 2015 and the *Karen Knutsen* in January 2014, and decreased spot in-chartering of shuttle tankers.

Net Revenues. Net revenues increased for the three months ended June 30, 2015, and decreased for the six months ended June 30, 2015 from the same periods last year, primarily due to:

increases of \$4.5 million for the three and six months ended June 30, 2015, due to an increase in revenues from the commencement of the east coast of Canada contract in June 2015;

increases of \$4.0 million and \$4.3 million, respectively, for the three and six months ended June 30, 2015, due to an increase in rates and more opportunities to trade excess shuttle tanker capacity in the conventional tanker spot market;

an increase of \$0.8 million for the six months ended June 30, 2015, due to fewer repair off-hire days in our time-chartered-out fleet compared to the same period last year; and

an increase of \$0.6 million for the six months ended June 30, 2015, due to an increase in reimbursable bunker and dry-docking expenses;

partially offset by

decreases of \$4.3 million and \$5.3 million, respectively, for the three and six months ended June 30, 2015, due to the sale of the *Navion Svenita* in March 2015;

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decreases of \$2.0 million and \$1.6 million, respectively, for the three and six months ended June 30, 2015, relating to fewer opportunities to trade excess shuttle tanker capacity in short-term offshore projects; and

decreases of \$0.5 million and \$4.1 million, respectively, for the three and six months ended June 30, 2015, due to the redelivery of two vessels to us, in February 2014 and April 2015 as they completed their time-charter-out agreements, partially offset by an increase in revenues in our time-chartered-out fleet from an increase in rates as provided in certain contracts and an increase in revenues in our contract of affreightment fleet due to higher average rates and higher fleet utilization.

Vessel Operating Expenses. Vessel operating expenses decreased for the three and six months ended June 30, 2015 from the same periods last year, primarily due to:

decreases of \$3.7 million and \$7.6 million, respectively, for the three and six months ended June 30, 2015, due to the strengthening of the U.S. Dollar against the Norwegian Kroner, Euro and Brazilian Real;

decreases of \$2.3 million and \$3.5 million, respectively, for the three and six months ended June 30, 2015, due to the sale of the *Navion Norvegia* and the *Navion Svenita* in October 2014 and March 2015, respectively;

decreases of \$2.2 million and \$3.6 million, respectively, for the three and six months ended June 30, 2015, due to the timing of repairs and maintenance expenses compared to the same periods last year and a decrease in crew costs compared to the same periods last year, due to a change in the crew composition from the reflagging of one vessel in early 2014 and lower crew levels due to a decrease in the shuttle tanker fleet size, partially offset by an increase due to the timing of fleet overhead costs; and

a decrease of \$0.8 million for the three and six months ended June 30, 2015, due to the commencement of an FSO conversion of the *Randgrid* in June 2015;

partially offset by

an increase of \$0.9 million for the six months ended June 30, 2015, relating to the commencement of operations of the *HiLoad DP* unit in April 2014.

Time-Charter Hire Expense. Time-charter hire expense increased for the three and six months ended June 30, 2015 from the same periods last year, primarily due to:

an increase of \$4.4 million for the three and six months ended June 30, 2015, due to the in-chartering of the three shuttle tankers for the east coast of Canada contract, which commenced in June 2015; and

increases of \$1.7 million and \$1.9 million, respectively, for the three and six months ended June 30, 2015, primarily due to the drydocking of the *Aberdeen* during the second quarter of 2014, and the drydocking and offhire of the *Sallie Knutsen* during the first and second quarters of 2014; partially offset by

a decrease of \$0.5 million for the six months ended June 30, 2015, due to the redelivery by us of the *Karen Knutsen* in January 2014; and

decreases of \$0.4 million and \$5.2 million, respectively, for the three and six months ended June 30, 2015, due to decreased spot in-chartering of shuttle tankers.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased for the three months ended June 30, 2015, and increased for the six months ended June 30, 2015, from the same periods last year, primarily due to:

a decrease of \$1.0 million for the three and six months ended June 30, 2015, due to the commencement of the FSO conversion of the *Randgrid*; and

decreases of \$0.7 million and \$1.3 million, respectively, for the three and six months ended June 30, 2015, due to the sales of the *Navion Norvegia* and the *Navion Svenita* in October 2014 and March 2015, respectively; partially offset by

increases of \$0.7 million and \$1.7 million, respectively, for the three and six months ended June 30, 2015, due to the dry docking of five shuttle tankers during mid-2014; and

increases of \$0.7 million and \$1.4 million, respectively, for the three and six months ended June 30, 2015, due to the commencement of depreciation on the *HiLoad DP* unit in January 2015.

(Write-down) and gain on sale of vessels. (Write-down) and gain on sale of vessels was \$(13.9) million for the six months ended June 30, 2015 which consisted of a write-down of vessels of \$15.5 million and a gain on sale of a vessel of \$1.6 million. During the six months ended June 30, 2015, the carrying value of one of our 1999-built shuttle tankers was written down to its estimated fair value, using an appraised value. The write-down amounted to \$13.8 million and was the result of a change in the operating plan for the vessel. During the six months ended June 30, 2015, the carrying value of one of our 1992-built shuttle tankers was written down to its estimated fair value, using an appraised value. The write-down amounted to \$1.7 million and was the result of the expected sale of the vessel. During the six months ended June 30, 2015, a 1997-built shuttle tanker, the *Navion Svenita*, was sold to a third party resulting in a gain on the sale of the vessel of \$1.6 million.

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Restructuring (Charge) Recovery. A restructuring recovery of \$0.8 million was recorded during the three and six months ended June 30, 2014, relating to a reimbursement received during the second quarter of 2014 for the reorganization of the Partnership's shuttle tanker marine operations completed during 2013. A restructuring charge of \$0.6 million was incurred during the six months ended June 30, 2014, which related to the reflagging of one shuttle tanker commencing in January 2014 and completed in March 2014.

FPSO Segment

As at June 30, 2015, our FPSO fleet consisted of the *Petrojarl Varg*, the *Cidade de Rio das Ostras* (or *Rio das Ostras*), the *Piranema Spirit*, the *Voyageur Spirit* and the *Petrojarl I* FPSO units, all of which we own 100%, and the *Itajai* and the *Libra* FPSO units, of which we own 50%. In October 2014, we sold a 1995-built shuttle tanker, the *Navion Norvegia*, to our 50/50 joint venture with Odebrecht and the vessel currently is undergoing conversion into an FPSO unit for the *Libra* field located in the Santos Basin offshore Brazil and is scheduled to commence operations in early-2017. We acquired the *Petrojarl I* FPSO unit from Teekay Corporation in December 2014. The unit is currently undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard in the Netherlands. In July 2015, we acquired the *Petrojarl Knarr* FPSO unit from Teekay Corporation. The strengthening or weakening of the U.S. Dollar relative to the Norwegian Kroner, Brazilian Real, and British Pound may result in significant decreases or increases, respectively, in our revenues and vessel operating expenses.

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, some of which also include certain incentive compensation or penalties based on the level of oil production and other operational measures. Historically, the utilization of FPSO units and other vessels in the North Sea, where the *Petrojarl Varg*, *Voyageur Spirit* and *Petrojarl Knarr* operate, 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.

On April 13, 2013, the *Voyageur Spirit* FPSO unit began production and on May 2, 2013, we acquired the unit from Teekay Corporation. Upon commencing production, we had a specified time period to receive final acceptance from E.ON Ruhrgas UK GP (or *E.ON*), the charterer; however due to a defect encountered in one of its two gas compressors, the FPSO unit was unable to achieve final acceptance within the allowable timeframe resulting in the FPSO unit being declared off-hire by the charterer retroactive to April 13, 2013.

On August 27, 2013, repairs to the defective gas compressor on the *Voyageur Spirit* FPSO unit were completed and the unit achieved full production capacity. We entered into an interim agreement with E.ON, whereby we were compensated for production beginning August 27, 2013 until final acceptance on February 22, 2014.

Until the *Voyageur Spirit* FPSO unit was declared on hire, Teekay Corporation indemnified us for certain production shortfalls and unreimbursed vessel operating expenses. For the period from April 13, 2013 to December 31, 2013, Teekay Corporation indemnified us for a total of \$34.9 million for production shortfalls and unreimbursed repair costs. For the three months ended March 31, 2014, Teekay Corporation indemnified us for an additional \$3.5 million for production shortfalls and unreimbursed repair costs. Amounts paid as indemnification from Teekay Corporation to us were treated as a reduction in the purchase price we paid for the FPSO unit.

The following table presents our FPSO segment's operating results for the three and six months ended June 30, 2015 and 2014 and also provides a summary of the calendar-ship-days for our FPSO segment. The table excludes the results of the *Itajai* and the *Libra* FPSO units, which are accounted for under the equity method.

Three Months Ended June 30,			
(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	2015	2014	% Change
Revenues	86,246	83,984	2.7
Vessel operating expenses	(33,557)	(39,472)	(15.0)
Depreciation and amortization	(19,844)	(18,186)	9.1
General and administrative ⁽¹⁾	(5,011)	(7,989)	(37.3)
Income from vessel operations	27,834	18,337	51.8
Calendar-Ship-Days			
Owned Vessels	455	364	25.0

Six Months Ended June 30,			
(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	2015	2014	% Change
Revenues	170,449	167,121	2.0
Vessel operating expenses	(64,790)	(79,863)	(18.9)
Depreciation and amortization	(39,939)	(36,089)	10.7
General and administrative ⁽¹⁾	(9,813)	(13,747)	(28.6)
Income from vessel operations	55,907	37,422	49.4
Calendar-Ship-Days			
Owned Vessels	905	724	25.0

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(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). See the discussion under Other Operating Results below.

The average number of our FPSO units increased for the three and six months ended June 30, 2015 compared to the same periods last year, due to the acquisition of the *Petrojarl I* on December 15, 2014. No earnings are expected from the *Petrojarl I* until its upgrades are completed, which is scheduled for the first half of 2016. The unit is scheduled to commence operations in mid-2016 under a five-year fixed-rate charter contract with Queiroz Galvão Exploração e Produção SA (or *QGEP*).

Revenues. Revenues increased for the three and six months ended June 30, 2015, compared to the same periods last year, primarily due to:

increases of \$2.3 million and \$5.3 million, respectively, for the three and six months ended June 30, 2015, on the *Voyageur Spirit*, primarily due to an increase in daily hire rates primarily due to the charterer's final acceptance of the charter contract on February 22, 2014 and a production penalty accrual recorded during the second quarter of 2014;

increases of \$1.9 million and \$1.1 million, respectively, for the three and six months ended June 30, 2015, due to an increase in crew hours reimbursed by the charterer of the *Petrojarl Varg*;

increases of \$1.0 million and \$2.3 million, respectively, for the three and six months ended June 30, 2015, due to an increase in rates on the *Rio das Ostras* in accordance with the annual contractual escalation recorded in the fourth quarter of 2014 and the unit earning only 95% standby rate while it was being relocated to a new oil field during the first and second quarters of 2014 compared to only during the second quarter of 2015;

an increase of \$0.8 million for the three months ended June 30, 2015, due to a reversal of penalties accrued on the *Piranema Spirit* during the second quarter of 2015 as a result of a partial retraction of the penalties; and

increases of \$0.7 million and \$2.4 million, respectively, for the three and six months ended June 30, 2015, due to the commencement of operations of a produced water treatment plant on the *Piranema Spirit* in the second quarter of 2014;

partially offset by

decreases of \$3.2 million and \$5.5 million, respectively, for the three and six months ended June 30, 2015, due to the strengthening of the U.S. Dollar against the Norwegian Kroner and Brazilian Real compared to the same periods last year on revenues related to the *Petrojarl Varg* and the *Piranema Spirit*, respectively (however, these decreases are offset by similar foreign-exchange related decreases in vessel operating expenses);

decreases of \$1.5 million and \$2.1 million, respectively, for the three and six months ended June 30, 2015, due to decreases in incentive compensation from the *Petrojarl Varg*; and

a decrease of \$0.7 million for the six months ended June 30, 2015, due to penalties accrued on the *Piranema Spirit* during 2015.

In connection with the *Voyageur Spirit* sale and purchase agreement, Teekay Corporation indemnified us for lost revenue and unreimbursed repair costs from the unit being off-hire since the unit began operations on April 13, 2013 until February 21, 2014. The indemnification amount relating to lost revenue was \$3.1 million for the six months ended June 30, 2014. The indemnification amount relating to unreimbursed repair costs was \$0.4 million for the six months ended June 30, 2014. These amounts have been recorded in equity as an adjustment to the purchase price we paid for the FPSO unit.

Vessel Operating Expenses. Vessel operating expenses decreased for the three and six months ended June 30, 2015 from the same periods last year, primarily due to:

decreases of \$6.4 million and \$13.3 million, respectively, for the three and six months ended June 30, 2015, due to the strengthening of the U.S. Dollar against the Norwegian Kroner, Brazilian Real and British Pound compared to the same periods last year;

a decrease of \$1.6 million for the six months ended June 30, 2015, due to external consulting fees incurred during the first quarter of 2014 to achieve final acceptance for the *Voyageur Spirit* FPSO unit; and

decreases of \$1.2 million and \$1.9 million, respectively, for the three and six months ended June 30, 2015, due to lower ship management costs related to operating the FPSO units; partially offset by

an increase of \$1.1 million for the three and six months ended June 30, 2015, due to higher crew hours relating to services required by the charterer on the *Petrojarl Varg* which are reimbursed by the charterer; and

an increase of \$0.6 million for the three and six months ended June 30, 2015, due to the timing of costs related to repair and maintenance on the *Piranema Spirit* and the *Rio das Ostras*.

Depreciation and Amortization Expense. Depreciation and amortization expense increased for the three and six months ended June 30, 2015 from the same periods last year, primarily due to the acquisition of the *Petrojarl I* on December 15, 2014.

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As at June 30, 2015, our FSO fleet consisted of six units that operate under fixed-rate time charters or fixed-rate bareboat charters and one shuttle tanker, the *Randgrid*, currently undergoing conversion into an FSO unit, in which our ownership interests range from 67% to 100%. We commenced the FSO conversion of the *Randgrid* during the second quarter of 2015 and the vessel has been included in our FSO segment since June 9, 2015. 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 the three and six months ended June 30, 2015 and 2014, and compares its net revenues (which is a non-GAAP financial measure) for the three and six months ended June 30, 2015 and 2014, 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:

Three Months Ended June 30,			
(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	2015	2014	% Change
Revenues	14,165	11,673	21.3
Voyage expenses	(89)	(149)	(40.3)
Net revenues	14,076	11,524	22.1
Vessel operating expenses	(6,921)	(7,532)	(8.1)
Depreciation and amortization	(2,975)	(1,298)	129.2
General and administrative ⁽¹⁾	(420)	(1,027)	(59.1)
Income from vessel operations	3,760	1,667	125.6
Calendar-Ship-Days			
Owned Vessels	567	546	3.8

Six Months Ended June 30,			
(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	2015	2014	% Change
Revenues	28,651	25,962	10.4
Voyage expenses	(221)	(172)	28.5
Net revenues	28,430	25,790	10.2
Vessel operating expenses	(13,280)	(13,405)	(0.9)
Depreciation and amortization	(5,895)	(2,991)	97.1
General and administrative ⁽¹⁾	(1,030)	(1,886)	(45.4)

Income from vessel operations	8,225	7,508	9.5
Calendar-Ship-Days			
Owned Vessels	1,107	1,086	1.9

(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). See the discussion under Other Operating Results below.

The average number of our FSO units increased for the three and six months ended June 30, 2015 compared to the same periods last year, due to the commencement of the FSO conversion of the *Randgrid* on June 9, 2015. No earnings are expected from the *Randgrid* until its conversion is completed in early-2017, when the unit is then scheduled to commence operations under a three-year time-charter contract to Statoil, which includes 12 additional one-year extension options.

Net Revenues. Net revenues increased for the three and six months ended June 30, 2015, compared to the same periods last year, primarily due to:

increases of \$2.2 million and \$4.3 million, respectively, for the three and six months ended June 30, 2015, due to the commencement of the *Suksan Salamander* on its bareboat charter in the third quarter of 2014; and

an increase of \$2.1 million for the three and six months ended June 30, 2015, primarily due to the drydocking of the *Dampier Spirit* during the second quarter of 2014; partially offset by

a decrease of \$1.3 million for the six months ended June 30, 2015, due to the contract extension in April 2014 of the *Pattani Spirit* at a lower charter rate for an additional five years;

decreases of \$1.1 million and \$1.8 million, respectively, for the three and six months ended June 30, 2015, primarily due to the strengthening of the U.S. Dollar against the Norwegian Kroner and Australian Dollar compared to the same periods last year; and

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a decrease of \$0.4 million for the six months ended June 30, 2015 due to reduced rates on the *Falcon Spirit*. *Vessel Operating Expenses*. Vessel operating expenses decreased for the three and six months ended June 30, 2015, compared to the same periods last year, primarily due to:

decreases of \$1.0 million and \$1.7 million, respectively, for the three and six months ended June 30, 2015, due to lower crew costs on the *Navion Saga* and the *Dampier Spirit* due to the appreciation of the U.S. Dollar against the Norwegian Kroner and Australian Dollar, respectively, compared to the same periods last year; partially offset by

increases of \$0.4 million and \$0.7 million, respectively, for the three and six months ended June 30, 2015, due to the amortization of mobilization costs on the *Suksan Salamander* commencing in the third quarter of 2014; and

an increase of \$0.7 million for the six months ended June 30, 2015, due to lower crew costs for the *Navion Saga* FSO unit relating to a pension adjustment recorded in the first quarter of 2014.

Depreciation and Amortization Expense. Depreciation and amortization expense increased for the three and six months ended June 30, 2015 from the same periods last year, primarily due to the delivery of the *Suksan Salamander* in August 2014.

Conventional Tanker Segment

As at June 30, 2015, we owned 100% interests in two Aframax conventional crude oil tankers, which operate under fixed-rate time charters with Teekay Corporation, and two vessels (that have additional equipment for lightering) which operated under fixed-rate bareboat charters with a 100% owned subsidiary of Teekay Corporation.

The following table presents our conventional tanker segment's operating results for the three and six months ended June 30, 2015 and 2014, and compares its net revenues (which is a non-GAAP financial measure) for the three and six months ended June 30, 2015 and 2014, 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:

(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	Three Months Ended June 30,		
	2015	2014	% Change
Revenues	8,245	8,600	(4.1)
Voyage expenses	(647)	(1,188)	(45.5)
Net revenues	7,598	7,412	2.5
Vessel operating expenses	(1,514)	(1,465)	3.3
Depreciation and amortization	(1,675)	(1,612)	3.9
General and administrative ⁽¹⁾	(507)	(312)	62.5

Income from vessel operations	3,902	4,023	(3.0)
Calendar-Ship-Days			
Owned Vessels	364	364	
(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	Six Months Ended June 30,		%
	2015	2014	Change
Revenues	16,307	17,228	(5.3)
Voyage expenses	(1,215)	(2,913)	(58.3)
Net revenues	15,092	14,315	5.4
Vessel operating expenses	(2,888)	(2,925)	(1.3)
Depreciation and amortization	(3,349)	(3,223)	3.9
General and administrative ⁽¹⁾	(759)	(845)	(10.2)
Income from vessel operations	8,096	7,322	10.6
Calendar-Ship-Days			
Owned Vessels	724	724	

(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). See the discussion under **Other Operating Results** below.

Net Revenues. Net revenues increased for the six months ended June 30, 2015, from the same period last year, primarily due to a higher amount of reimbursed bunkers.

General and administrative ⁽¹⁾	(1,147)	(3,283)	(65.1)
Income (loss) from vessel operations	4,316	(3,186)	(235.5)
Calendar-Ship-Days			
Owned Vessels	490		100.0
Chartered-in Vessels	19		100.0

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the towage segment based on estimated use of corporate resources). See the discussion under Other Operating Results below.

The average number of our towing and offshore installation vessels increased for the three and six months ended June 30, 2015 compared to the same periods last year, due to the delivery of the *ALP Guard* and the *ALP Winger* during February 2015, the delivery of the *ALP Centre* during March 2015, the delivery of the *ALP Ippon* during April 2015, and the delivery of the *ALP Ace* during May 2015.

Income from vessel operations. Income from vessel operations increased for the three and six months ended June 30, 2015, from the same periods last year, primarily due to the delivery of the five towing and offshore installation vessels during the first and second quarters of 2015 and the business development fees incurred during 2014.

UMS Segment

As at June 30, 2015, our UMS fleet consisted of one operational unit, the *Arendal Spirit*, and two newbuildings. During the second quarter of 2015, we exercised our options to defer the delivery of our second UMS newbuilding by up to one year, and the delivery and all related construction work of our third UMS by 120 days. These two newbuildings are scheduled to deliver in the third quarter of 2016 and the second quarter of 2017. We own 100% of all three units.

The UMS fleet is used primarily for offshore accommodation, storage and support for maintenance and modification projects on existing offshore installations, or during the installation and decommissioning of large floating exploration, production and storage units, including FPSO units, FLNG units and floating drill rigs. Our UMS fleet is available for world-wide operations, excluding operations within the Norwegian Continental Shelf, and includes DP3 keeping systems that are capable of operating in deep water and harsh weather.

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The following table presents our UMS segment's operating results and calendar-ship-days for the three and six months ended June 30, 2015 and 2014. We had no operations during 2014 and therefore no revenue or expenditure incurred for the segment for the three and six months ended June 30, 2014. The *Arendal Spirit* delivered to us on February 16, 2015 and began its three year charter contract on June 7, 2015.

(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	Three Months Ended June 30,		
	2015	2014	% Change
Revenues	3,686		100.0
Vessel operating expenses	(1,126)		100.0
Depreciation and amortization	(401)		100.0
General and administrative ⁽¹⁾	(639)		100.0
Write down of vessel	(500)		100.0
Income from vessel operations	1,020		100.0
Calendar-Ship-Days			
Owned Vessels	91		100.0

(in thousands of U.S. Dollars, except calendar-ship-days and percentages)	Six Months Ended June 30,		
	2015	2014	% Change
Revenues	3,686		100.0
Vessel operating expenses	(1,126)		100.0
Depreciation and amortization	(401)		100.0
General and administrative ⁽¹⁾	(1,146)		100.0
Write down of vessel	(500)		100.0
Income from vessel operations	513		100.0
Calendar-Ship-Days			
Owned Vessels	134		100.0

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the UMS segment based on estimated use of corporate resources). See the discussion under Other Operating Results below.

The average number of our UMS increased for the three and six months ended June 30, 2015 compared to the same periods last year, due to the delivery of the *Arendal Spirit* in February 2015.

Income from vessel operations. Income from vessel operations increased for the three and six months ended June 30, 2015, from the same periods last year, primarily due to the commencement of the charter contract of the *Arendal Spirit* in June 2015. The three and six months ended June 30, 2015 includes a write down relating to an expired option to purchase an additional unit.

Other Operating Results

General and Administrative Expenses. General and administrative expenses decreased to \$14.2 million and \$29.1 million for the three and six months ended June 30, 2015, respectively, compared to \$18.1 million and \$32.9 million for the same periods last year. The decrease was due to a \$1.6 million business development fee paid to Teekay Corporation in relation to the acquisition of ALP during the second quarter of 2014, a \$1.0 million acquisition fee to a third party relating to the acquisition of ALP during the first quarter of 2014 and a decrease in management fees relating to our FPSO fleet primarily from our focus on obtaining final charter contract acceptance for the *Voyageur Spirit* in the first quarter of 2014, partially offset by the acquisition of Logitel during the third quarter of 2014, the commencement of the charter contract of the *Arendal Spirit* in June 2015 and an increase in services provided to us from Teekay Corporation as a result of our growth.

Interest Expense. Interest expense increased to \$24.7 million and \$47.9 million for the three and six months ended June 30, 2015 from \$21.6 million and \$40.5 million for the same periods last year, primarily due to:

increases of \$5.3 million and \$10.9 million, respectively, for the three and six months ended June 30, 2015, due to the borrowings relating to the *Suksan Salamander* FSO unit (which commenced operations in the third quarter of 2014), the five towing vessels, which delivered during the first and second quarters of 2015, and the \$300 million senior unsecured bonds we issued in May 2014;
partially offset by

decreases of \$1.9 million and \$3.4 million, respectively, for the three and six months ended June 30, 2015, relating to lower interest expense on our Norwegian Kroner (or *NOK*) bonds as a result of the depreciation of the *NOK* against the U.S. Dollar and a decrease in *NIBOR*. However, this decrease was offset by an increase in realized losses on cross currency swaps related to our *NOK* senior unsecured bonds which losses are included in foreign currency exchange gain (losses).

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Realized and Unrealized Gains (Losses) on Derivatives. Net realized and unrealized gains (losses) on derivatives increased to a gain of \$42.3 million and losses of (\$9.4) million for the three and six months ended June 30, 2015, compared to net realized and unrealized losses of (\$38.1) million and (\$74.8) million for the same periods last year.

During the three months ended June 30, 2015 and 2014, we had interest rate swap agreements with aggregate average outstanding notional amounts of approximately \$1.7 billion, with average fixed rates of approximately 3.4% and 3.6%, respectively. Short-term variable benchmark interest rates during these periods were generally 0.8% or less and, as such, we incurred realized losses of \$11.8 million and \$14.0 million, respectively, during the three months ended June 30, 2015 and 2014, under the interest rate swap agreements.

During the six months ended June 30, 2015 and 2014, we had interest rate swap agreements with aggregate average outstanding notional amounts of approximately \$1.7 billion and \$1.8 billion, respectively with average fixed rates of approximately 3.4% and 3.6%, respectively. Short-term variable benchmark interest rates during these periods were generally 0.8% or less and, as such, we incurred realized losses of \$24.1 million and \$28.1 million, respectively, during the three months ended June 30, 2015 and 2014, under the interest rate swap agreements.

During the three and six months ended June 30, 2015 and 2014, we were committed to foreign currency forward contracts to hedge portions of our forecasted expenditures denominated in Norwegian Kroner. Additionally, during the three and six months ended June 30, 2015, we were committed to foreign currency forward contracts to hedge portions of our forecasted expenditures denominated in the Euro and the Singapore Dollar.

The \$80.4 million increase in net realized and unrealized gains for the three months ended June 30, 2015 was primarily due to a \$73.4 million increase in unrealized gains on interest rate swaps relating to an increase in long-term LIBOR benchmark interest rates as at June 30, 2015 relative to March 31, 2015, compared to a decrease in long-term LIBOR benchmark interest rates as at June 30, 2014 relative to March 31, 2014, a \$7.6 million increase in unrealized gains on foreign currency forward contracts primarily due to the weakening of the U.S. Dollar against the Norwegian Kroner as at June 30, 2015 relative to March 31, 2015, compared to a strengthening of the U.S. Dollar against the Norwegian Kroner as at June 30, 2014 relative to March 31, 2014, and a \$2.2 million decrease in realized losses on interest rate swaps due to higher current LIBOR interest rates for the three months ended June 30, 2015 compared to the same quarter last year, partially offset by a \$2.8 million increase in realized losses on foreign currency forward contracts due the strengthening of the U.S. Dollar compared to the same quarter last year.

The \$65.4 million decrease in net realized and unrealized losses for the six months ended June 30, 2015 was primarily due to a \$66.5 million increase in unrealized gains on interest rate swaps relating to an increase in long-term LIBOR benchmark interest rates as at June 30, 2015 relative to the beginning of 2015, compared to a decrease in long-term LIBOR benchmark interest rates as at June 30, 2014 relative to the beginning of 2014, and a \$4.0 million decrease in realized losses on interest rate swaps due to higher current LIBOR interest rates for the six months ended June 30, 2015 compared to the same period last year, partially offset by a \$5.5 million increase in realized losses on foreign currency forward contracts due the strengthening of the U.S. Dollar compared to the same period last year.

Equity Income. Equity income was \$9.7 million and \$13.8 million for the three and six months ended June 30, 2015, respectively, compared to \$2.4 million and \$6.1 million for the same periods last year. The increases in equity income were primarily due to an increase in unrealized gains on derivative instruments included in our investment in the *Itajai* and *Libra* FPSO units, and a credit received during the six months ended June 30, 2015 relating to unused maintenance days in the *Itajai* FPSO joint venture.

Foreign Currency Exchange Gain (Loss). Foreign currency exchange gains (losses) were \$2.8 million and (\$4.3) million for the three and six months ended June 30, 2015, respectively, compared to (\$2.8) million and (\$3.6) million

for the same periods last year. Our foreign currency exchange gains (losses), 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 the three and six months ended June 30, 2015, foreign currency exchange gains (losses) include realized losses of \$2.0 million and \$4.3 million, respectively (2014 - \$0.0 million for both periods) and unrealized gains (losses) of \$12.5 million and (\$19.7) million, respectively (2014 - losses of \$14.3 million and losses of \$6.7 million, respectively) on the cross currency swaps and unrealized (losses) gains of (\$9.5) million and \$19.9 million, respectively (2014 - gains of \$11.4 million and gains of \$2.3 million, respectively), on the revaluation of the Norwegian Kroner denominated debt. There were additional realized and unrealized foreign exchange gains (losses) of \$1.8 million and (\$0.2) million, respectively, for the three and six months ended June 30, 2015 (2014 - gains of \$0.1 million and gains of \$0.8 million, respectively) on all other monetary assets and liabilities.

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 and distributions on our preferred units, is generally paid out to our common unitholders within approximately 45 days after the end of each quarter. Our primary short-term liquidity needs are to pay quarterly distributions on our outstanding common, Series A and Series B preferred and Series C convertible preferred units, to pay 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, in addition to all other sources of cash, including cash from operations, will be sufficient to meet our existing liquidity needs, other than acquisitions and expansion capital expenditures, for at least the next 12 months. We expect that we will rely upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and expansion capital expenditures, including opportunities we may pursue to purchase additional vessels from Teekay Corporation or third parties.

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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 1 Financial Statements: Note 5 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. We have two revolving credit facilities and two term loans that require us to maintain vessel values to drawn principal balance ratios of a minimum range of 105% to 125%. As at June 30, 2015, these ratios ranged from 133% to 204%. The vessel values used in these ratios are appraised values provided by third parties where available, or are prepared by us based on second-hand sale and purchase market data. Changes in the conventional or shuttle tanker, towing or UMS markets could negatively affect these ratios. As at June 30, 2015, we and our affiliates were in compliance with all covenants relating to the revolving credit facilities and term loans.

As at June 30, 2015, our total consolidated cash and cash equivalents were \$242.8 million, compared to \$252.1 million at December 31, 2014. Our total consolidated liquidity, including cash, cash equivalents and undrawn long-term borrowings, was \$242.8 million as at June 30, 2015, compared to \$351.7 million as at December 31, 2014. The decrease in liquidity was primarily due to: liquidity used to fund a portion of the final installment payment on the *Arendal Spirit* UMS in February 2015, payments for the delivery of five towing and offshore installation vessels in the first and second quarters of 2015 and payments for committed newbuildings and conversions (please read Item 1 Financial Statements: Note 9 Commitments and Contingencies); a reduction in the amount available for borrowing under our revolving credit facilities; and the scheduled repayments or prepayments of outstanding term loans; partially offset by net proceeds of \$120.8 million due to the issuance of the Series B preferred units in April 2015.

As at June 30, 2015, we had a working capital deficit of \$358.2 million, compared to a working capital deficit of \$124.0 million at December 31, 2014. The current portion of long-term debt increased mainly due to the reclassification of NOK 500 million unsecured bonds maturing in January 2016 and two revolving credit facilities maturing in the second quarter of 2016 to current debt as at June 30, 2015 and the drawdown of three new debt facilities, the proceeds of which we used primarily to fund the final installment payment on the *Arendal Spirit* UMS and the delivery of five towing and offshore installation vessels during the first and second quarters of 2015. Our net due to affiliates balance increased mainly due to the timing of settlements made during the first and second quarters of 2015. We expect to manage our working capital deficit primarily with net operating cash flow generated, new term loans and, to a lesser extent, the proceeds of equity issuances to replenish liquidity used for newbuilding installments.

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:

(in thousands of U.S. dollars)	Six Months Ended June 30,	
	2015	2014
Net cash flow from operating activities	166,820	36,942
Net cash flow from financing activities	258,814	87,317
Net cash flow used for investing activities	(435,008)	(91,824)

Operating Cash Flows.

Net cash flow from operating activities increased to \$166.8 million for the six months ended June 30, 2015, from \$36.9 million for the same period in 2014, primarily due to a \$111.8 million increase in changes in non-cash working capital, a \$26.0 million decrease in vessel operating expenses, a \$21.3 million increase in net revenues, a \$4.3 million decrease in dry-docking expenditures, a \$3.8 million decrease in general and administrative expenses and a \$1.0 million decrease in current income taxes, partially offset by a \$21.4 million increase in net deferred mobilization costs and long term accounts receivable, a \$7.2 million decrease in foreign exchange gains and other items, a \$6.4 million increase in net interest expense, a \$1.5 million increase in realized losses on derivatives, a \$1.4 million increase in time-charter hire expense and a \$0.4 million increase in restructuring costs.

The increase in non-cash working capital items for the six months ended June 30, 2015 compared to the same period last year is primarily due to the timing of settlements of intercompany balances with related parties and the timing of payments made to vendors and received from customers.

For a further discussion of changes in income statement items described above for our six reportable segments, please read [Results of Operations](#) .

Table of Contents*Financing Cash Flows.*

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 from long-term debt, net of debt issuance costs and prepayments of long-term debt, were \$392.2 million for the six months ended June 30, 2015, and \$407.9 million for the same period in 2014. Net proceeds from the issuance of long-term debt decreased for the six months ended June 30, 2015, mainly due to proceeds from the issuance of NOK 1,000 million and \$300.0 million unsecured bonds during the six months ended June 30, 2014, which were used for general partnership purposes, partially offset by the drawdown of three new debt facilities and one existing revolving credit facility, the proceeds of which we used primarily to fund the final installment payment on the *Arendal Spirit* UMS and the delivery of five towing and offshore installation vessels during the first and second quarters of 2015.

We actively manage the maturity profile of our outstanding financing arrangements. Our scheduled repayments of long-term debt decreased to \$150.9 million for the six months ended June 30, 2015, from \$241.2 million for the same period in 2014.

Cash distributions paid by our subsidiaries to non-controlling interests during the six months ended June 30, 2015 and 2014 totaled \$5.7 million. Cash distributions paid by us to our common and preferred unitholders and our general partner, with respect to our common and preferred units during the six months ended June 30, 2015 and 2014 were \$115.5 million and \$107.2 million, respectively. The increase in distributions to our common and preferred unitholders and our general partner was attributed to an increase in the number of common units resulting from the 7.1 million (including our general partner's 2% proportionate capital contribution) common units issued during 2014.

The decrease of \$15.1 million in restricted cash during the six months ended June 30, 2015 relates to a decrease in collateral on cross currency swaps.

In April 2015, we completed a public offering of \$125 million of our 8.5% Series B Preferred Units, raising net proceeds of approximately \$120.8 million. The net proceeds from the issuance were used for general partnership purposes, including the funding of newbuilding installments, capital conversion projects and vessel acquisitions.

Subsequent to June 30, 2015, cash distributions of \$55.0 million on our outstanding common units and general partner interest related to the second quarter of 2015 were declared and were paid on August 14, 2015. Subsequent to June 30, 2015, cash distributions for Series A and Series B preferred units relating to the second quarter of 2015 were declared and were paid on August 17, 2015 and totaled \$6.1 million.

Investing Cash Flows.

During the six months ended June 30, 2015, net cash flow used for investing activities was \$435.0 million, primarily relating to expenditures for vessels and equipment (including the \$167.0 million final installment on the *Arendal Spirit* UMS, \$139.3 million on the five towing and offshore installation vessels delivered in the first and second quarters of 2015, the \$33.2 million first installment payment on three newbuilding shuttle tankers, \$28.7 million of upgrade costs on the *Petrojarl I* FPSO unit, \$17.4 million on FSO conversion costs, installments of \$12.2 million on the four newbuilding towing vessels and \$6.2 million on various other vessel additions), an increase in restricted cash of \$42.1 million due to cash held as security related to the purchase of the five towing and offshore installation vessels (please read Item 1 Financial Statements: Note 9(c) Commitments and Contingencies) and investments in the *Libra* FPSO joint venture of \$5.4 million, partially offset by proceeds of \$8.9 million from the sale of the *Navion Svenita* shuttle

tanker, \$5.2 million for the repayment of advances from our joint venture and scheduled lease payments of \$2.4 million received from leasing our direct financing lease assets.

During the six months ended June 30, 2014, net cash flow used for investing activities was \$91.8 million, primarily relating to the expenditures for vessels and equipment (including installments of \$46.9 million on the four newbuilding ALP towage vessels and \$45.2 million on various other vessel additions and FSO conversion costs) and the \$2.3 million acquisition of 100% of the shares of ALP, partially offset by scheduled lease payments of \$2.6 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 June 30, 2015:

	Total	Balance of 2015	2016 and 2017	2018 and 2019	Beyond 2019
(in millions of U.S. Dollars)					
U.S. Dollar-Denominated Obligations					
Long-term debt ⁽¹⁾	2,292.7	164.0	758.2	848.9	521.6
Chartered-in vessels (operating leases)	105.2	29.8	75.4		
Acquisition of vessels and newbuildings and committed conversion costs ⁽²⁾	1,710.7	480.3	1,150.0	80.4	
Norwegian Kroner-Denominated Obligations					
Long-term debt ⁽³⁾	369.3		140.1	229.2	
Total contractual obligations	4,477.9	674.1	2,123.7	1,158.5	521.6

- (1) Excludes expected interest payments of \$31.5 million (remainder of 2015), \$105.7 million (2016 and 2017), \$64.5 million (2018 and 2019) and \$29.8 million (beyond 2019). Expected interest payments are based on existing interest rates (fixed-rate loans) and LIBOR, plus margins which ranged between 0.30% and 3.25% (variable-rate loans) as at June 30, 2015. The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our variable rate debt.
- (2) Consists of the acquisition of four towing and offshore installation newbuildings, two UMS newbuildings and three shuttle tanker newbuildings, our 50% interest in an FPSO conversion for the Libra field, upgrades of the *Petrojarl I* FPSO unit, the FSO conversion for the *Randgrid* shuttle tanker and the acquisition of the one remaining on-the-water long-distance towing and offshore installation vessel, which delivered in July 2015. Please read Item 1 Financial Statements: Note 9 (b), (c), (d), (e), (f) and (g) Commitments and Contingencies, and Note 12 (a) and (b) Acquisitions.

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- (3) Excludes expected interest payments of \$11.3 million (remainder of 2015), \$33.6 million (2016 and 2017) and \$8.4 million (2018 and 2019). Expected interest payments are based on NIBOR, plus margins which ranged between 4.00% and 5.75% as at June 30, 2015. The expected interest payments do not reflect the effect of related interest rate swaps and cross currency swaps that we have used as an economic hedge of certain of our Norwegian Kroner-denominated obligations.

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. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments 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 could differ from our assumptions and estimates and such differences could be material. Accounting estimates and assumptions discussed in our Annual Report on Form 20-F 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 description of our material accounting policies, please read Part I, Item 5 Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2014. As at June 30, 2015, there were no significant changes to accounting estimates or assumptions from those discussed in the Form 20-F.

At June 30, 2015, the shuttle tanker and towage segments had goodwill attributable to them. Based on conditions that existed at June 30, 2015, we do not believe that there is a reasonable possibility that the goodwill attributable to these reporting units might be impaired for the remainder of the year. However, certain factors that impact this assessment are inherently difficult to forecast and, as such, we cannot provide any assurance 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 following section entitled Forward-Looking Statements .

FORWARD-LOOKING STATEMENTS

This Report on Form 6-K contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and our operations, performance and financial condition, including, in particular, statements regarding:

our future growth prospects, including the timing and certainty of new offshore projects;

future capital expenditures and availability of capital resources to fund capital expenditures;

potential offers of vessels and related contracts from Teekay Corporation or third parties and our accepting such offers;

acquisitions from third parties and obtaining offshore projects that we or Teekay Corporation bid on or may be awarded;

certainty of completion, estimated delivery and completion dates, intended financing and estimated costs for newbuildings, acquisitions and conversions, including the UMS, towing newbuildings, conversion of the *Randgrid* to an FSO unit to serve the Gina Krog oil and gas field, conversion of the *Navion Norvegia* to an FPSO unit to serve the Libra field, the upgrades of the *Petrojarl I* FPSO unit and shuttle tanker newbuildings;

payment of additional consideration for our acquisitions of ALP and Logitel and the capabilities of the ALP vessels and the UMS;

the expectations as to the chartering of unchartered vessels, including two UMS and four towing newbuildings and the six on-the-water towing vessel;

the cost and certainty of our acquisition of the remaining 33% ownership interest in the *Randgrid* shuttle tanker;

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 future valuation of goodwill;

our liquidity needs and anticipated funds for liquidity needs and the sufficiency of cash flows;

our compliance with covenants under our credit facilities;

the ability of the counterparties for our derivative contracts to fulfill their contractual obligations;

our hedging activities relating to foreign exchange, interest rate and spot market risks; and

our exposure to foreign currency fluctuations, particularly in Norwegian Kroner.

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Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, will be, will continue, will likely result, plan, intend or words or phrases of similar meanings. These statements 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: changes in production of oil from offshore oil fields; changes in oil prices; changes in the demand for offshore oil transportation, production and storage services; greater or less than anticipated levels of vessel newbuilding orders or greater or less than anticipated rates of vessel scrapping; changes in trading patterns; changes in our expenses; the timing of implementation of new laws and regulations; potential inability to implement our growth strategy; competitive factors in the markets in which we operate; potential for early termination of long-term contracts and our potential inability to renew or replace long-term contracts; loss of any customer, time charter or vessel; shipyard production, conversion or vessel delivery delays; the inability of the joint venture between Teekay Corporation and Odebrecht to secure new Brazil FPSO projects that may be offered for sale to us; failure to obtain required approvals by the Conflicts Committee of our general partner to acquire other vessels or offshore projects from Teekay Corporation or third parties; our potential inability to raise financing to purchase additional vessels; our exposure to currency exchange rate fluctuations; changes to the amount or proportion of revenues and expenses denominated in foreign currencies; potential inability to obtain charters for two UMS or financing related to UMS and towing vessels; our ability to successfully operate in new markets, including the east coast of Canada; and other risk factors detailed from time to time in our periodic reports filed with the SEC, including our Annual Report on Form 20-F for the year ended December 31, 2014. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

JUNE 30, 2015

PART I FINANCIAL INFORMATION

ITEM 3 - 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 that require us to make interest payments based on LIBOR or NIBOR. Significant increases in interest rates could adversely affect operating margins, results of operations and our ability to service our debt. From time to time, we use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt.

We are exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. 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 June 30, 2015 that are sensitive to changes in interest rates. For long-term debt, the table presents principal payments and related weighted-average interest rates by expected contractual maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

	Balance of 2015	Expected Maturity Date					Total	Fair Value Liability Rate ⁽¹⁾	
		2016	2017	2018	2019	There- after			
Long-Term Debt:									
Variable Rate (\$U.S.) ⁽²⁾	147.3	353.0	362.3	357.2	155.7	399.3	1,774.8	1,755.5	2.2%
Variable Rate (NOK) ⁽³⁾		63.7	76.4	101.9	127.3		369.3	365.6	6.1%
Fixed-Rate Debt (\$U.S.)	16.7	24.6	18.3	17.0	319.0	122.3	517.9	491.0	5.3%
Interest Rate Swaps:									
Contract Amount ⁽⁴⁾	430.8	171.8	143.9	152.7	29.7	730.8	1,659.7	194.3	3.4%
Average Fixed Pay Rate ⁽²⁾	3.4%	3.1%	1.3%	1.2%	2.4%	4.4%	3.4%		

- (1) Rate relating to long-term debt refers to the weighted-average effective interest rate for our debt, including the margin paid on our floating-rate debt. Rate relating to interest rate swaps refers to 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 June 30, 2015 ranged between 0.3% and 3.25% based on LIBOR and between 4.00% 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 NOK-denominated debt and interest rate swaps are based on NIBOR. Our NOK-denominated debt has been economically hedged with 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 1 Financial Statements: Note 7 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.

Foreign Currency Fluctuation Risk

Our functional currency is the U.S. Dollar because virtually all of our revenues and most of our operating costs are in U.S. Dollars. We incur certain vessel operating expenses, general and administrative expenses and a portion of our capital conversion and upgrade projects in foreign currencies, the most significant of which is the Norwegian Kroner and, to a lesser extent, Australian Dollar, Brazilian Real, British Pound, Euro and Singapore Dollar. 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 certain of our currency fluctuation risks in the future. At June 30, 2015, we were committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency (thousands)	Average Forward Rate (1)	Expected Maturity			Fair Value / Carrying Amount of Asset (Liability) (in thousands of U.S. Dollars) Non-hedge
			2015	2016	2017	
			(in thousands of U.S. Dollars)			
Norwegian Kroner	608,500	7.01	35,217	46,632	4,905	(9,610)
Euro	23,137	0.88	24,011	2,413		(593)
Singapore Dollar	22,442	1.35		16,537		53
						(10,150)

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(1) Average forward rate represents the contracted amount of foreign currency one U.S. Dollar will buy. We incur interest expense on our NOK-denominated bonds. We have entered into cross currency swaps to economically hedge the foreign exchange risk on the principal and interest for these bonds. Please read Item 1 Financial Statements: Note 7 Derivative Instruments and Hedging Activities.

As at June 30, 2015, we were committed to the following cross currency swaps:

Notional Amount NOK (thousands)	Principal Amount USD	Floating Rate Receivable			Fixed Rate Payable	Fair Value / Carrying Amount of Asset (Liability) (Thousands of U.S. Dollars)	Remaining Term (years)
		Reference Rate	Margin				
600,000	101,351	NIBOR	5.75%	7.49%	(28,252)	1.6	
500,000	89,710	NIBOR	4.00%	4.94%	(26,776)	0.6	
800,000	143,536	NIBOR	4.75%	6.07%	(44,925)	2.6	
1,000,000	162,200	NIBOR	4.25%	6.42%	(40,604)	3.6	
					(140,557)		

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 June 30, 2015, we were not committed to any bunker fuel swap contracts.

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TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

JUNE 30, 2015

PART II OTHER INFORMATION

Item 1 Legal Proceedings

None

Item 1A Risk Factors

In addition to the other information set forth in this Report on Form 6-K, you should carefully consider the risk factors discussed in Part I, Item 3. Key Information Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2014, which could materially affect our business, financial condition or results of operations.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

On July 1, 2015 and July 14, 2015, the Partnership issued 5,427,975 and 5,010,438, respectively, of its 8.6% Series C Perpetual Convertible Preferred Units (the *Series C Preferred Units*) at a price of \$23.95 for aggregate proceeds of \$250 million. The Series C Preferred Units were issued to certain institutional investors pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The distribution rate for the Series C Preferred Units is 8.6% per annum and the Series C Preferred Units are convertible into the Partnership's common units on a one-for-one basis at any time after 18 months at a price of \$23.95 per unit. The Series C Preferred Units are also redeemable upon certain events. A summary description of the Series C Preferred Units is included in the Partnership's Report on Form 6-K filed with the SEC on July 6, 2015.

On July 1, 2015, the Partnership issued a Convertible Promissory Note in the amount of \$492 million (the *Note*) to Teekay Corporation, which included a provision for the conversion of up to \$300 million into common units of the Partnership. On July 31, 2015, \$300 million in principal of the Note was converted into 14,402,304 common units at a price per share of \$20.83, and the General Partner of the Partnership made a proportionate capital contribution of \$6.1 million to maintain its 2% general partner interest in the Partnership. The Note and the common units were issued pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

None

Item 5 Other Information

None

Item 6 Exhibits

- 2.1 Agreement, dated February 2, 2015, among Logitel Offshore Rig I Pte. Ltd. and Citibank N.A., London Branch for a U.S. \$150,000,000 term loan, of which U.S. \$117,000,000 is due 2025 and U.S. \$33,000,000 is due 2021.
- 2.2 Agreement, dated February 6, 2015, among ALP Forward B.V., ALP Ace B.V., ALP Centre B.V., ALP Guard B.V., ALP Winger B.V. and ALP Ippon B.V. and Credit Suisse AG, for a U.S. \$150,000,000 term loan due 2023.
- 2.3 Agreement, dated June 29, 2015, among Petrojarl I L.L.C. and ABN AMRO CAPITAL USA LLC for a U.S. \$180,000,000 term loan due 2021.
- 2.4 Agreement, dated July 31, 2015, among OOGTK Libra GmbH & Co KG, ABN AMRO Bank N.V. and various other banks for a U.S. \$803,711,786.92 term loan due 2027.
- 4.1 Fourth Amended and Restated Agreement of Limited Partnership of Teekay Offshore Partners L.P. (incorporated by reference to Exhibit 4.1 to Partnership's Report on Form 6-K filed with the SEC on July 6, 2015)
- 10.1 Series C Preferred Unit Purchase Agreement, dated June 30, 2015, by and among Teekay Offshore Partners L.P. and the Purchasers Named on Schedule A thereto (incorporated by reference to Exhibit 10.1 to the Partnership's Report on Form 6-K filed with the SEC on July 6, 2015)
- 10.2 Registration Rights Agreement, dated July 1, 2015, by and among Teekay Offshore Partners L.P. and the Purchasers Named on Schedule A thereto (incorporated by reference to Exhibit 10.2 to the Partnership's Report on Form 6-K filed with the SEC on July 6, 2015)
- 10.3 Amendment No. 1 to Knarr Purchase Agreement, dated June 29, 2015, by and among Teekay Offshore Partners L.P. and Teekay Corporation (incorporated by reference to Exhibit 10.3 to the Partnership's Report on Form 6-K filed with the SEC on July 6, 2015)
- 10.4 Convertible Promissory Note, dated July 1, 2015, made by Teekay Offshore Partners L.P. for the benefit of Teekay Corporation (incorporated by reference to Exhibit 10.3 to the Partnership's Report on Form 6-K filed with the SEC on July 6, 2015)

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THIS REPORT ON FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO THE FOLLOWING REGISTRATION STATEMENTS OF THE PARTNERSHIP:

REGISTRATION STATEMENT ON FORM S-8 (NO. 333-147682) FILED WITH THE SEC ON NOVEMBER 28, 2007

REGISTRATION STATEMENT ON FORM F-3 (NO. 333-175685) FILED WITH THE SEC ON JULY 21, 2011

REGISTRATION STATEMENT ON FORM F-3 (NO. 333-178620) FILED WITH THE SEC ON DECEMBER 19, 2011

REGISTRATION STATEMENT ON FORM F-3 (NO. 333-183225) FILED WITH THE SEC ON AUGUST 10, 2012

REGISTRATION STATEMENT ON FORM F-3 (NO. 333-188393) FILED WITH THE SEC ON MAY 7, 2013

REGISTRATION STATEMENT ON FORM F-3 (NO. 333-188543) FILED WITH THE SEC ON MAY 10, 2013

REGISTRATION STATEMENT ON FORM F-3 (NO. 333-193301) FILED WITH THE SEC ON JANUARY 10, 2014

REGISTRATION STATEMENT ON FORM F-3ASR (NO. 333-196098) FILED WITH THE SEC ON MAY 20, 2014

REGISTRATION STATEMENT ON FORM F-3 (NO. 333-197053) FILED WITH THE SEC ON JUNE 26, 2014

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEEKAY OFFSHORE PARTNERS L.P.

By: Teekay Offshore GP L.L.C., its general partner

Date: August 17, 2015

By: /s/ Peter Evensen
Peter Evensen
Chief Executive Officer and Chief Financial Officer
(Principal Financial and Accounting Officer)

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