

Teekay Offshore Partners L.P.
Form 6-K
August 22, 2007

**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, 2007

Commission file number 001-33198

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

Bayside House
Bayside Executive Park
West Bay Street & Blake Road
P.O. Box AP-59212, Nassau, Bahamas
(Address of principal executive office)

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

Form Form
20-F 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

Edgar Filing: Teekay Offshore Partners L.P. - Form 6-K

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-_____

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

INDEX

PART I:	FINANCIAL INFORMATION	<u>PAGE</u>
Item 1. Financial Statements (Unaudited)		
	Report of Independent Registered Public Accounting Firm	3
	Unaudited Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2007 and 2006	4
	Unaudited Consolidated Balance Sheets as at June 30, 2007 and December 31, 2006	5
	Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006	6
	Unaudited Consolidated Statements of Changes In Partners' Equity for the six months ended June 30, 2007	7
	Notes to the Unaudited Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations		16
Item 3. Quantitative and Qualitative Disclosures about Market Risk		30
PART II: OTHER INFORMATION		32
SIGNATURES		33

ITEM 1 - FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the consolidated balance sheet of Teekay Offshore Partners L.P. (successor to Teekay Offshore Partners Predecessor) and subsidiaries (or the *Partnership*) as of June 30, 2007, the related consolidated statement of income (loss) for the three and six months ended June 30, 2007 and 2006, and the changes in consolidated partners' equity and cash flows for the six months ended June 30, 2007. These financial statements are the responsibility of the Partnership's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with United States generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Partnership as of December 31, 2006, and the related consolidated statements of income, changes in partners' equity and cash flows for the year then ended (not presented herein), and in our report dated March 14, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Vancouver, Canada
August 1, 2007

/s/ ERNST & YOUNG LLP
Chartered Accountants

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (Note 1)
(Successor to Teekay Offshore Partners Predecessor)
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in thousands of U.S. dollars, except unit and per unit data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
VOYAGE REVENUES (including \$37,954 and \$77,452 from related parties for the three and six months ended June 30, 2007, respectively and \$54,061 and \$112,119 for the three and six months ended June 30, 2006, respectively - <i>notes 10a, 10b, 10d, 10e, and 10h</i>)	189,189	181,708	379,941	386,724
OPERATING EXPENSES				
Voyage expenses	36,805	24,046	71,340	48,344
Vessel operating expenses	33,559	26,058	63,778	52,954
Time-charter hire expense	36,473	78,043	74,588	165,630
Depreciation and amortization	29,033	25,461	57,624	51,331
General and administrative (including \$16,106 and \$29,696 from related parties for the three and six months ended June 30, 2007, respectively and \$1,334 and \$2,694 for the three and six months ended June 30, 2006, respectively - <i>notes 10c, 10g, and 10i</i>)	16,248	21,618	31,422	43,469
Vessel and equipment writedowns (<i>note 14</i>)	-	2,150	-	2,150
Restructuring charge (<i>note 9</i>)	-	453	-	453
Total operating expenses	152,118	177,829	298,752	364,331
Income from vessel operations	37,071	3,879	81,189	22,393
OTHER ITEMS				
Interest expense (<i>note 7</i>)	(17,553)	(12,844)	(36,062)	(24,504)
Interest income	1,347	1,712	2,484	3,291
Equity income from joint ventures	-	1,253	-	3,191
Foreign currency exchange loss	(5,797)	(13,735)	(9,957)	(18,688)
Income tax (expense) recovery (<i>note 12</i>)	(532)	(5,318)	3,374	(7,762)
Other income - net (<i>note 9</i>)	2,582	3,024	5,301	5,694
Total other items	(19,953)	(25,908)	(34,860)	(38,778)
Income (loss) before non-controlling interest				
Non-controlling interest (<i>note 1</i>)	17,118	(22,029)	46,329	(16,385)
	(13,404)	(251)	(35,783)	(414)

Edgar Filing: Teekay Offshore Partners L.P. - Form 6-K

Net income (loss)	3,714	(22,280)	10,546	(16,799)
General partner's interest in net income (loss)	74	-	211	-
Limited partners' interest: <i>(note 15)</i>				
Net income (loss)	3,640	(22,280)	10,335	(16,799)
Net income (loss) per:				
- Common unit (basic and diluted)	0.35	(1.77)	0.70	(1.33)
- Subordinated units (basic and diluted)	0.02	(1.77)	0.35	(1.33)
- Total units (basic and diluted)	0.19	(1.77)	0.53	(1.33)
Weighted average number of units outstanding:				
- Common unit (basic and diluted)	9,800,000	2,800,000	9,800,000	2,800,000
- Subordinated units (basic and diluted)	9,800,000	9,800,000	9,800,000	9,800,000
- Total units (basic and diluted)	19,600,000	12,600,000	19,600,000	12,600,000
Cash distributions declared per unit	0.35	-	0.40	-

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

Page 4 of 33

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (Note 1)
(Successor to Teekay Offshore Partners Predecessor)
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at June 30, 2007 \$	As at December 31, 2006 \$
ASSETS		
Current		
Cash and cash equivalents (<i>note 7</i>)	100,718	113,986
Accounts receivable, net	49,068	24,635
Due from affiliates (<i>note 10j</i>)	4,452	-
Net investment in direct financing leases - current	23,120	21,764
Prepaid expenses	23,542	24,608
Other assets	7,933	7,732
Total current assets	208,833	192,725
Vessels and equipment (<i>note 7</i>)		
At cost, less accumulated depreciation of \$634,083 (December 31, 2006 - \$581,994)	1,492,019	1,524,842
Net investment in direct financing leases	88,722	92,018
Other assets	64,133	38,198
Intangible assets - net (<i>note 5</i>)	60,890	66,425
Goodwill (<i>note 5</i>)	127,113	127,113
Total assets	2,041,710	2,041,321
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable	18,581	7,366
Accrued liabilities	29,455	42,987
Current portion of long-term debt (<i>note 7</i>)	18,980	17,656
Due to affiliate (<i>note 10j</i>)	-	16,951
Total current liabilities	67,016	84,960
Long-term debt (<i>note 7</i>)	1,262,011	1,285,696
Deferred income taxes	72,839	71,583
Other long-term liabilities	30,570	32,163
Total liabilities	1,432,436	1,474,402
Commitments and contingencies (<i>notes 7, 10, 11, 13 and 16</i>)		
Non-controlling interest	460,603	427,977
Partners' equity		
Partners' equity	136,095	133,642
Accumulated other comprehensive income (<i>note 8</i>)	12,576	5,300

Total partners' equity	148,671	138,942
Total liabilities and partners' equity	2,041,710	2,041,321

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

Page 5 of 33

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (Note 1)
(Successor to Teekay Offshore Partners Predecessor)
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Six Months Ended June 30,	
	2007	2006
	\$	\$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income (loss)	10,546	(16,799)
Non-cash items:		
Depreciation and amortization	57,624	51,331
Non-controlling interest	35,783	414
Loss on writedown of vessels and equipment	-	2,150
Deferred income tax (recovery) expense	(3,374)	8,636
Equity income (net of dividends received: June 30, 2006 - \$2,500)	-	(691)
Unrealized foreign currency exchange loss and other - net	10,465	18,033
Change in non-cash working capital items related to operating activities	(52,268)	(10,589)
Distribution from subsidiaries to non-controlling interest owners	(24,269)	(495)
Expenditures for drydocking	(18,911)	(3,780)
Net operating cash flow	15,596	48,210
FINANCING ACTIVITIES		
Proceeds from long-term debt	70,000	238,710
Scheduled repayments of long-term debt	(6,361)	-
Prepayments of long-term debt	(86,000)	(93,527)
Expenses from initial public offering of common units	(1,542)	-
Net advances to affiliate	-	(186,644)
Cash distributions paid	(8,000)	-
Other	-	(646)
Net financing cash flow	(31,903)	(42,107)
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(5,216)	(5,054)
Investment in direct financing leases	(1,980)	(5,177)
Repayment of direct financing leases	10,235	9,104
Net investing cash flow	3,039	(1,127)
(Decrease) increase in cash and cash equivalents	(13,268)	4,976
Cash and cash equivalents, beginning of the period	113,986	128,986
Cash and cash equivalents, end of the period	100,718	133,962

Supplemental cash flow information (note 6)

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

Page 6 of 33

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES (Note 1)
(Successor to Teekay Offshore Partners Predecessor)
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' EQUITY
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

PARTNERS' EQUITY
Limited Partners

	Common		Subordinated		General Partner \$	Accumulated Other Comprehensive Loss \$	Total \$
	Units	\$	Units	\$			
Balance as at December 31, 2006	9,800	134,714	9,800	(1,052)	(20)	5,300	138,942
Net income (January 1 – June 30, 2007)	-	6,860	-	3,475	211	-	10,546
Other comprehensive income:							
Unrealized gain on derivative instruments (<i>notes 8 and 11</i>)	-	-	-	-	-	8,244	8,244
Reclassification adjustment for gain on derivative instruments included in net income (<i>notes 8 and 11</i>)	-	-	-	-	-	(968)	(968)
Offering costs from public offering of limited partnership interests		(93)	-	-	-	-	(93)
Cash distribution	-	(3,920)	-	(3,920)	(160)	-	(8,000)
Balance as at June 30, 2007	9,800	137,561	9,800	(1,497)	31	12,576	148,671

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

Page 7 of 33

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

(Successor to Teekay Offshore Partners Predecessor)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of presentation

During August 2006, Teekay Corporation formed Teekay Offshore Partners L.P., a Marshall Islands limited partnership (the *Partnership*), as part of its strategy to expand in the marine transportation, processing and storage sectors of the offshore oil industry and for the Partnership to acquire, in connection with the Partnership's initial public offering of its common units, a 26.0% interest in Teekay Offshore Operating L.P. (or *OPCO*), consisting of a 25.99% limited partner interest to be held directly by the Partnership and a 0.01% general partner interest to be held through the Partnership's ownership of Teekay Offshore Operating GP L.L.C., OPCO's sole general partner.

Prior to the closing of the Partnership's initial public offering on December 19, 2006, Teekay Corporation transferred eight Aframax-class conventional crude oil tankers to a subsidiary of Norsk Teekay Holdings Ltd. (or *Norsk Teekay*) and one floating storage and offtake (or *FSO*) unit to Teekay Offshore Australia Trust. Teekay Corporation then transferred to OPCO all of the outstanding interests of four wholly-owned subsidiaries — Norsk Teekay, Teekay Nordic Holdings Inc. (or *Teekay Nordic*), Teekay Offshore Australia Trust and Pattani Spirit L.L.C. These four wholly-owned subsidiaries, which include the eight Aframax-class conventional crude oil tankers and the FSO unit, are collectively referred to as *Teekay Offshore Partners Predecessor* or the *Predecessor*. The excess of the price paid by the Partnership over the book value of these assets was \$226.8 million and has been accounted for as an equity distribution to Teekay Corporation. Immediately prior to the closing of the Partnership's initial public offering, Teekay Corporation sold to the Partnership the 25.99% limited partner interest in OPCO and its subsidiaries and a 100% interest in Teekay Offshore Operating GP L.L.C., which owns the 0.01% general partner interest in OPCO, in exchange for (a) the issuance to Teekay Corporation of 2,800,000 common units and 9,800,000 subordinated units of the Partnership and a \$134.6 million non-interest bearing promissory note and (b) the issuance of the 2.0% general partner interest in the Partnership and all of the Partnership's incentive distribution rights to Teekay Offshore GP L.L.C., a wholly owned subsidiary of Teekay Corporation (or *the General Partner*). The Partnership controls OPCO through its ownership of OPCO's general partner, and Teekay Corporation owns the remaining 74.0% interest in OPCO. These transfers represented a reorganization of entities under common control and were recorded at historical cost. Immediately preceding the public offering, the net book equity of the Partnership's 26% share of these assets was \$3.5 million.

The accompanying unaudited interim consolidated financial statements for periods prior to the initial public offering reflect the combined consolidated financial position, results of operations and cash flows of the Predecessor and its subsidiaries. In the preparation of these unaudited interim combined consolidated financial statements of the Predecessor, general and administrative expenses were not identifiable as relating solely to the vessels. General and administrative expenses, which consist primarily of salaries and other employee related costs, office rent, legal and professional fees, and travel and entertainment, were allocated based on the Predecessor's proportionate share of Teekay Corporation's total ship-operating (calendar) days for each of the periods presented. Management believes this allocation reasonably presents the general and administrative expenses of the Predecessor.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). The preparation of 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. These financial statements include the accounts of the Predecessor and its subsidiaries for the periods prior to December 19, 2006. For periods commencing December 19, 2006, the consolidated financial statements include the accounts of Teekay Offshore

Partners L.P. and its subsidiaries. In addition, the consolidated financial statements include the accounts of the Predecessor's and the Partnership's controlled joint ventures from December 1, 2006, the date the joint venture operating agreements were amended such that OPCO obtained control of these joint ventures. 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, 2006. In the opinion of the General Partner's management, these interim consolidated financial statements reflect all adjustments, of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership's consolidated financial position, results of operations, changes in partners' 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. Significant intercompany balances and transactions have been eliminated upon consolidation.

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period. Distribution from subsidiaries to non-controlling interest owners have been reclassified from financing activities to operating activities in the consolidated statement of cash flows for the six months ended June 30, 2006.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES**(Successor to Teekay Offshore Partners Predecessor)****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Cont'd)****(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)****2. Change in Accounting Policy**

In July 2006, the Financial Accounting Standards Board (or *FASB*) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (or *FIN 48*). This interpretation clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 requires companies to determine whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements based on guidance in the interpretation.

The Partnership adopted FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have a significant impact on the Partnership's financial position and results of operations. As of January 1 and June 30, 2007, the Partnership did not have any material unrecognized tax benefits or material accrued interest and penalties relating to taxes. The Partnership does not expect any material changes to its unrecognized tax positions within the next twelve months.

The Partnership recognizes interest and penalties related to uncertain tax positions in income tax expense. The tax years 2005 through 2006 remain open to examination by the major taxing jurisdiction to which the Partnership is subject.

3. Initial Public Offering

On December 19, 2006, the Partnership completed its initial public offering (or the *Offering*) of 8.05 million common units at a price of \$21.00 per unit. This included 1.05 million common units sold to the underwriters in connection with the exercise of their over-allotment option. The proceeds received by the Partnership from the Offering and the use of those proceeds are summarized as follows:

Proceeds received:

Sale of 8,050,000 common units at \$21.00 per unit	\$	169,050
--	----	---------

Use of proceeds from sale of common units:

Underwriting and structuring fees	\$	11,088
Professional fees and other offering expenses to third parties		2,793
Repayment of promissory note and redemption of 1.05 million common units from Teekay Corporation		155,169
	\$	169,050

4. Segment Reporting

The Partnership is engaged in the international marine transportation and storage of crude oil through the operation of its oil tankers and FSO units. The Partnership's revenues are earned in international markets.

The Partnership has three reportable segments: its shuttle tanker segment; its conventional tanker segment; and its FSO segment. The Partnership's shuttle tanker segment consists of shuttle tankers operating primarily on fixed-rate

contracts of affreightment, time-charter contracts or bareboat charter contracts. The Partnership's conventional tanker segment consists of conventional tankers primarily operating on fixed-rate time-charter contracts. The Partnership's FSO segment consists of its FSO units subject to fixed-rate time-charter contracts or bareboat charter contracts. Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Partnership's consolidated financial statements for the year ended December 31, 2006.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES**(Successor to Teekay Offshore Partners Predecessor)****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Cont'd)****(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)**

The following tables present results for these segments for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30,							
	2007				2006			
	Shuttle Tanker Segment	Conventional Tanker Segment	FSO Segment	Total	Shuttle Tanker Segment	Conventional Tanker Segment	FSO Segment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Voyage revenues	144,418	33,759	11,012	189,189	123,593	52,152	5,963	181,708
Voyage expenses	27,020	9,689	96	36,805	22,249	1,536	261	24,046
Vessel operating expenses	24,885	5,060	3,614	33,559	18,722	5,446	1,890	26,058
Time-charter hire expense	36,473	-	-	36,473	40,455	37,588	-	78,043
Depreciation and amortization	19,825	5,110	4,098	29,033	17,672	5,408	2,381	25,461
General and administrative ⁽¹⁾	13,736	1,835	677	16,248	13,221	7,905	492	21,618
Vessels and equipment writedowns	-	-	-	-	2,150	-	-	2,150
Restructuring charge	-	-	-	-	-	453	-	453
Income from vessel operations	22,479	12,065	2,527	37,071	9,124	(6,184)	939	3,879
Voyage revenues - intersegment	-	-	-	-	1,485	-	-	1,485
Expenditures for vessels and equipment	974	1,620	92	2,686	1,278	278	1,982	3,538

	Six Months Ended June 30,							
	2007				2006			
	Shuttle Tanker Segment	Conventional Tanker Segment	FSO Segment	Total	Shuttle Tanker Segment	Conventional Tanker Segment	FSO Segment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Voyage revenues	290,564	72,648	16,729	379,941	263,203	111,555	11,966	386,724
Voyage expenses	51,841	19,153	346	71,340	44,690	3,131	523	48,344

Edgar Filing: Teekay Offshore Partners L.P. - Form 6-K

Vessel operating expenses	47,628	11,062	5,088	63,778	38,407	11,031	3,516	52,954
Time-charter hire expense	74,588	-	-	74,588	86,292	79,338	-	165,630
Depreciation and amortization	40,520	10,695	6,409	57,624	35,811	10,787	4,733	51,331
General and administrative ⁽¹⁾	26,444	3,858	1,120	31,422	27,187	15,313	969	43,469
Vessels and equipment writedowns	-	-	-	-	2,150	-	-	2,150
Restructuring charge	-	-	-	-	-	453	-	453
Income from vessel operations	49,543	27,880	3,766	81,189	28,666	(8,498)	2,225	22,393
Voyage revenues - intersegment	-	-	-	-	2,618	-	-	2,618
Expenditures for vessels and equipment	1,644	3,468	104	5,216	1,954	418	2,682	5,054

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

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES**(Successor to Teekay Offshore Partners Predecessor)****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Cont'd)****(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)**

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

	June 30, 2007	December 31, 2006
	\$	\$
Shuttle tanker segment	1,421,202	1,445,830
Conventional tanker segment	256,839	310,699
FSO segment	113,823	75,633
Unallocated:		
Cash and cash equivalents	100,718	113,986
Accounts receivable, prepaid expenses and other assets	149,128	95,173
Consolidated total assets	2,041,710	2,041,321

5. Goodwill and Intangible Assets

The carrying amount of goodwill for the Partnership's reportable segments is as follows:

	Shuttle Tanker Segment	Conventional Tanker Segment	FSO Segment	Total
	\$	\$	\$	\$
Balance as of June 30, 2007 and December 31, 2006	127,113	-	-	127,113

As at June 30, 2007 and December 31, 2006, intangible assets consisted of:

	June 30, 2007			December 31, 2006			
	Weighted-Average Amortization Period (years)	Gross Carrying Amount \$	Accumulated Amortization \$	Net Carrying Amount \$	Gross Carrying Amount \$	Accumulated Amortization \$	Net Carrying Amount \$
Contracts of affreightment	10.2	124,250	(63,360)	60,890	124,250	(57,825)	66,425

Aggregate amortization expense of intangible assets for the three and six months ended June 30, 2007 was \$2.5 million (\$3.0 million – 2006) and \$5.5 million (\$6.0 million – 2006), respectively. Amortization of intangible assets for the next five years subsequent to June 30, 2007 is expected to be \$5.5 million (remainder of 2007), \$10.1 million (2008), \$9.1 million (2009), \$8.1 million (2010) and \$7.0 million (2011).

6. Supplemental Cash Flow Information

Cash interest paid by the Partnership during the six months ended June 30, 2007 and 2006 totaled \$33.2 million and \$22.6 million, respectively. No taxes were paid during the six months ended June 30, 2007 and 2006.

7. Long-Term Debt

	June 30, 2007	December 31, 2006
	\$	\$
U.S. Dollar-denominated Revolving Credit Facilities due through 2014	1,064,000	1,080,000
U.S. Dollar-denominated Term Loans due through 2015	216,991	223,352
	1,280,991	1,303,352
Less current portion	18,980	17,656
Total	1,262,011	1,285,696

As at June 30, 2007, the Partnership had two long-term revolving credit facilities (collectively, the *Revolvers*), which, as at such date, provided for borrowings of up to \$1,349.9 million, of which \$285.9 million was undrawn. The total amount available under the Revolvers reduces by \$46.4 million (remainder of 2007), \$97.3 million (2008), \$103.3 million (2009), \$109.8 million (2010), \$116.6 million (2011) and \$876.5 million (thereafter). The Revolvers contain covenants that require the Partnership to maintain the greater of a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines) of at least \$75.0 million and 5.0% of the Partnership's total consolidated debt. The Revolvers are collateralized by first-priority mortgages granted on 27 of the

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Offshore Partners Predecessor)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Cont'd)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

Partnership's vessels, together with other related collateral, including a guarantee from certain subsidiaries of the Partnership for all outstanding amounts.

As at June 30, 2007, each of the Partnership's five 50%-owned joint ventures had an outstanding term loan, which in aggregate totaled \$217.0 million. The term loans have varying maturities through 2015 and semi-annual payments that reduce over time. All term loans are collateralized by first-priority mortgages on the vessels to which the loans relate, together with other related collateral. As at June 30, 2007, the Partnership had guaranteed \$44.3 million of these term loans, which represents its 50% share of the outstanding vessel mortgage debt of two of these 50%-owned joint venture companies. Teekay Corporation and the Partnership's joint venture partner have guaranteed the remaining \$172.7 million.

Interest payments on the Revolvers and term loans are based on LIBOR plus a margin. At June 30, 2007 and December 31, 2006, the margins ranged between 0.45% and 0.80%. The weighted-average effective interest rate on the Partnership's long-term debt as at June 30, 2007 and December 31, 2006 was 6.0%. This rate does not reflect the effect of our interest rate swaps (see Note 11).

8. Comprehensive Income (Loss)

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net income (loss)	3,714	(22,280)	10,546	(16,799)
Other comprehensive income:				
Unrealized gain on derivative instruments	8,103	491	8,244	1,168
Reclassification adjustment for (gain) loss on derivative instruments included in net income	(569)	1	(968)	2
Comprehensive income (loss)	11,248	(21,788)	17,822	(15,629)

As at June 30, 2007 and December 31, 2006, the Partnership's accumulated other comprehensive income of \$12.6 million and \$5.3 million, respectively, consisted of net unrealized gains on derivative instruments.

9. Restructuring Charge and Other Income - Net

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Volatile organic compound emissions plant lease income	2,715	3,003	5,488	5,657
Miscellaneous	(133)	21	(187)	37
Other income - net	2,582	3,024	5,301	5,694

During the six months ended June 30, 2006, the Predecessor relocated certain operational functions within Norway, and as a result, incurred \$0.5 million of restructuring costs.

10. Related Party Transactions

- a. Navion Shipping Ltd., a subsidiary of the Predecessor, time-chartered vessels to a subsidiary of Teekay Corporation at charter rates that provided for a 1.25% fixed profit margin. Pursuant to this arrangement, the Predecessor earned voyage revenues of \$40.0 million and \$84.8 million during the three and six months ended June 30, 2006, respectively.

During the three and six months ended June 30, 2006, the Predecessor earned \$2.8 million and \$5.1 million, respectively, of management fees for commercial management services provided to a subsidiary of Teekay Corporation, relating to the vessels chartered from Navion Shipping Ltd.

On July 1, 2006, the Predecessor sold Navion Shipping Ltd. to a subsidiary of Teekay Corporation.

- b. On October 1, 2006, OPCO entered into new time-charter contracts for its nine Aframax-class conventional tankers with a subsidiary of Teekay Corporation at market-based daily rates for terms of five to twelve years. Under the terms of eight of these nine time-charter contracts, OPCO is responsible for the bunker fuel expenses; however, OPCO will add the approximate amounts of these expenses to the daily hire rate. Pursuant to these time-charter contracts, OPCO earned voyage revenues of \$30.8 million and \$63.7 million for the three and six months ended June 30, 2007, respectively.

During the three months and six months ended June 30, 2006, seven of these nine tankers were employed on time-charter contracts with a subsidiary of Teekay Corporation. The rates earned by each vessel, which were generally lower than market rates, depended upon the cash flow requirements of each vessel, which included operating expenses, loan principal and interest payments and drydock expenditures. Pursuant to these time-charter contracts, the Predecessor earned voyage revenues of \$8.4 million and \$16.7 million during the three and six months ended June 30, 2006, respectively.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Offshore Partners Predecessor)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Cont'd)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

- c. Eight of OPCO'S Aframax conventional oil tankers and two FSO units have been managed by subsidiaries of Teekay Corporation. Pursuant to the associated management services agreements, the Partnership incurred general and administrative expenses of \$1.1 million and \$2.2 million during the three and six months ended June 30, 2007, respectively. During the three and six months ended June 30, 2006, the Partnership incurred \$1.3 million and \$2.7 million, respectively, of these costs.
- d. Two of OPCO's FSO units have been employed on long-term bareboat charters with subsidiaries of Teekay Corporation. Pursuant to these charter contracts, the Partnership earned voyage revenues of \$3.1 million and \$5.6 million during the three and six months ended June 30, 2007, respectively. The Partnership earned \$2.8 million and \$5.4 million during the three and six months ended June 30, 2006, respectively, pursuant to these contracts.
 - e. Effective October 1, 2006, two of OPCO's shuttle tankers have been employed on long-term bareboat charters with a subsidiary of Teekay Corporation. Pursuant to these charter contracts, the Partnership earned voyage revenues of \$3.5 million and \$7.0 million during the three and six months ended June 30, 2007, respectively.
- f. The Partnership has entered into an omnibus agreement with Teekay Corporation, Teekay LNG Partners L.P., the General Partner and others governing, among other things, when the Partnership, Teekay Corporation and Teekay LNG Partners L.P. may compete with each other and certain rights of first offering on LNG carriers, oil tankers, shuttle tankers, FSO units and floating production, storage and offloading units.
 - g. The Partnership, OPCO and certain of OPCO's operating subsidiaries have entered into services agreements with certain subsidiaries of Teekay Corporation in connection with our initial public offering, pursuant to which Teekay Corporation subsidiaries provide the Partnership, OPCO and its operating subsidiaries with administrative, advisory, technical and strategic consulting services and ship management services. During the three and six months ended June 30, 2007, the Partnership incurred \$14.9 million and \$27.3 million of these costs, respectively. Prior to the Offering, the shore-based staff providing these services to the Predecessor were transferred to a subsidiary of Teekay Corporation.
- h. On October 1, 2006, a subsidiary of Teekay Corporation entered into a services agreement with a subsidiary of OPCO, pursuant to which the subsidiary of OPCO provides Teekay Corporation's subsidiary with ship management services. During the three and six months ended June 30, 2007, the Partnership earned management fees of \$0.6 million and \$1.2 million, respectively.
- i. The Partnership reimburses the General Partner for all expenses incurred by the Partnership that are necessary or appropriate for the conduct of the Partnership's business. During the three and six months ended June 30, 2007, the Partnership incurred \$0.1 million and \$0.2 million of these costs, respectively.
- j. At June 30, 2007 and December 31, 2006, amounts due from and to affiliates totaled \$4.5 million and \$17.0 million, respectively. Amounts due from and to affiliates are non-interest bearing and unsecured.

11. Derivative Instruments and Hedging Activities

The Partnership uses derivatives only for hedging purposes. The following summarizes the Partnership's risk strategies with respect to market risk from foreign currency fluctuations and changes in interest rates.

The Partnership hedges portions of its forecasted expenditures denominated in foreign currencies with foreign exchange forward contracts. As at June 30, 2007, the Partnership was committed to foreign exchange contracts for the forward purchase of approximately Australian Dollars 3.0 million for U.S. Dollars at an average rate of Australian Dollar 1.41 per U.S. Dollar. The foreign exchange forward contracts mature during the remainder of 2007.

As at June 30, 2007, the Partnership was committed to the following interest rate swap agreements related to its LIBOR-based debt, whereby certain of the Partnership's floating-rate debt was swapped with fixed-rate obligations:

	Interest Rate Index	Principal Amount \$	Fair Value/ Carrying Amount of Asset \$	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) ⁽¹⁾
U.S. Dollar-denominated interest rate swaps ⁽²⁾	LIBOR	52,800	1,738	7.0	4.7
U.S. Dollar-denominated interest rate swaps	LIBOR	1,422,975	49,895	7.3	4.9

Excludes the margin the Partnership pays on its variable-rate debt, which as at June 30, 2007, ranged from
(1) 0.625% to 0.80%.

(2) Principal amount reduces semiannually by \$2.2 million.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Offshore Partners Predecessor)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Cont'd)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data or unless otherwise indicated)

To the extent the hedge is effective, changes in the fair value of the Partnership's derivatives are recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of the Partnership's interest rate swap agreements and foreign exchange forward contracts is immediately recognized into income and is presented as interest expense and other income, respectively. During the three and six months ended June 30, 2007, the ineffective portion of the Partnership's interest rate swaps was \$0.6 million. During the three and six months ended June 30, 2006, the ineffective portion of the Partnership's interest rate swaps was nominal.

The Partnership is exposed to credit loss in the event of non-performance by the counter-parties to the foreign exchange forward contracts and the interest rate swap agreements; however, the Partnership does not anticipate non-performance by any of the counter-parties.

12. Income Taxes

The components of the provision for income taxes follow.

	Three Months Ended June		Six Months Ended June 30,	
	30,		2007	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current	(174)	188	(365)	(77)
Deferred	(358)	(5,506)	3,739	(7,685)
Income tax (expense) recovery	(532)	(5,318)	3,374	(7,762)

13. Commitments and Contingencies

In June 2007, the Partnership exercised its option to purchase a 2001-built shuttle tanker, which is currently part of the Partnership's in-chartered shuttle tanker fleet. The vessel is expected to be delivered in January 2008. The purchase commitment for this vessel is \$41.7 million, which will be financed through one of the Partnership's Revolvers and surplus cash balances.

14. Vessel and Equipment Writedowns

During the three months ended June 30, 2006, the Predecessor incurred a \$2.2 million writedown of certain offshore equipment. This writedown occurred due to a reassessment of the estimated net realizable value of this equipment and follows a \$10.2 million writedown in June 2005 arising from the early termination of a contract for this equipment.

15. Net Income Per Unit

Net income per unit is determined by dividing net income, after deducting the amount of net income allocated to the General Partner's interest from the issuance date of the common units of December 19, 2006, by the weighted-average number of units outstanding during the period. For periods prior to December 19, 2006, such units are deemed equal to the common and subordinated units received by Teekay Corporation in exchange for net assets contributed to the Partnership, or 12,600,000 units.

As required by Emerging Issues Task Force Issue No. 03-6, *Participating Securities and Two-Class Method under FASB Statement No. 128, Earnings Per Share*, the General Partner's, common unit holders' and subordinated unitholders' interests in net income are calculated as if all net income for periods subsequent to December 19, 2006 was distributed according to the terms of the 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 after establishment of cash reserves. Unlike available cash, net income is affected by non-cash items such as depreciation and amortization, and foreign currency translation gains (losses).

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES

(Successor to Teekay Offshore Partners Predecessor)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Cont'd)

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

Under the Partnership Agreement, the holder of the incentive distribution rights in the Partnership, which is currently the General Partner, has the right to receive an increasing percentage of cash distributions after the minimum quarterly distribution. Assuming there are no cumulative arrearages on common unit distributions, the target distribution levels entitle the General Partner to receive 2% of quarterly cash distributions up to \$0.4025 per unit, 15% of quarterly cash distributions between \$0.4025 and \$0.4375 per unit, 25% of quarterly cash distributions between \$0.4375 and \$0.525 per unit, and 50% of quarterly cash distributions in excess of \$0.525 per unit. During the three months ended June 30, 2007, net income did not exceed \$0.4025 per unit and, consequently, the assumed distribution of net income did not result in the use of the increasing percentages to calculate the General Partner's interest in net income.

Under the Partnership Agreement, during the subordination period the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.35 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. During the three months ended June 30, 2007, net income did not exceed the minimum quarterly distribution of \$0.35 per unit and, consequently, the assumed distribution of net income resulted in an unequal distribution of net income between the subordinated unit holders and common unit holders.

16. Subsequent Events

In July 2007, the Partnership acquired from Teekay Corporation interests in two double-hull shuttle tankers, for a total cost of \$159 million. The Partnership acquired the 2000-built *NavionBergen* and Teekay Corporation's 50% interest in the 2006-built *Navion Gothenburg*, together with their respective 13-year, fixed-rate bareboat charters to Petroleo Brasileiro S.A. The purchases were financed with one of the Partnership's existing Revolvers and the assumption of existing debt.

17. Other Information

In July 2007, the Partnership received an offer from Teekay Corporation to purchase one FSO unit, the *Dampier Spirit*, for a total cost of approximately \$30 million. If accepted by the Partnership, the vessel is expected to be delivered during the second half of 2007, and will operate under a fixed-rate time-charter to Apache Corporation of Australia with a remaining term of approximately seven years. If accepted, it is expected the purchase will be financed with one of the Partnership's existing Revolvers and surplus cash balances.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Offshore Partners Predecessor)
JUNE 30, 2007
PART I – FINANCIAL INFORMATION

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

General

We are an international provider of marine transportation and storage services to the offshore oil industry. We were formed in August 2006 by Teekay Corporation, a leading provider of marine services to the global oil and natural gas industries, to further develop its operations in the offshore market.

Prior to the closing of our initial public offering on December 19, 2006, Teekay Corporation contributed entities owning and operating a fleet of shuttle tankers, floating storage and offtake (or *FSO*) units and Aframax-class conventional oil tankers to Teekay Offshore Operating L.P. (or *OPCO*). Upon the closing of our initial public offering, we acquired from Teekay Corporation a 26.0% interest in *OPCO*, consisting of a 25.99% limited partner interest held by us and a 0.01% general partner interest held through our ownership of *OPCO*’s general partner, Teekay Offshore Operating GP L.L.C. Teekay Corporation owns the remaining 74.0% interest in *OPCO*. Prior to June 30, 2007, our 26.0% interest in *OPCO* represented our only cash-generating asset. The historical results discussed below are the results of the entities that were contributed to *OPCO*, which we refer to collectively as “Teekay Offshore Partners Predecessor”. As discussed below under “Items You Should Consider When Evaluating Our Results,” the entities contributed to *OPCO* do not own some of the assets and operations they owned during the three and six months ended June 30, 2006. References in this Management’s Discussion and Analysis of Financial Condition and Results of Operations to “*OPCO*” when used in a historical context for periods prior to December 19, 2006 refer to Teekay Offshore Partners Predecessor, and when used for periods on or after December 19, 2006 refer to *OPCO* and its subsidiaries.

Our growth strategy focuses on expanding our fleet of shuttle tankers and *FSO* units under long-term, fixed-rate time charters. We intend to continue our practice of acquiring shuttle tankers and *FSO* units as needed for approved projects only after the long-term charters for the projects have been awarded to us, rather than ordering vessels on a speculative basis. We intend to follow this same practice in acquiring floating production, storage and offloading (or *FPSO*) units, which produce and process oil offshore in addition to providing storage and offloading capabilities. We seek to capitalize on opportunities emerging from the global expansion of the offshore transportation, storage and production sectors by selectively targeting long-term, fixed-rate time charters. We may enter into joint ventures and partnerships with companies that may provide increased access to these opportunities or may engage in vessel or business acquisitions. We plan to leverage the expertise, relationships and reputation of Teekay Corporation and its affiliates to pursue these growth opportunities in the offshore sectors and may consider other opportunities to which our competitive strengths are well suited. We view our conventional tanker fleet primarily as a source of stable cash flow as we expand our offshore operations.

We manage our business and analyze and report our results of operations on the basis of the following three business segments:

Shuttle Tanker Segment. *OPCO*’s shuttle tanker fleet consists of 36 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters. Of the 36 shuttle tankers, 24 are owned (including five through 50%-owned joint ventures) and 12 are chartered-in. These shuttle tankers provide transportation services to energy companies, primarily in the North Sea and Brazil. During the three and six months ended June 30, 2007, this segment generated 77.0% and 77.4%, respectively, of total net voyage revenues. During the three and six months ended June 30, 2006, this segment generated 64.3% and 64.6%, respectively, of total net voyage revenues.

In July 2007, we acquired direct interests in two double-hull shuttle tankers, for a total cost of \$159 million, from Teekay Corporation. We acquired the 2000-built *Navion Bergen* and Teekay Corporation's 50% interest in the 2006-built *Navion Gothenburg*, together with their respective 13-year, fixed-rate bareboat charters to a subsidiary of Petrobras Transporte S.A., the shipping arm of Petroleo Brasileiro S.A. The purchases were financed with one of our existing revolving credit facilities and the assumption of existing debt.

Conventional Tanker Segment. OPCO owns nine Aframax-class conventional crude oil tankers, all of which operate under fixed-rate time charters with Teekay Corporation. During the three and six months ended June 30, 2007, this segment generated 15.8% and 17.3%, respectively, of total net voyage revenues. During the three and six months ended June 30, 2006, this segment generated 32.1% and 32.0%, respectively, of total net voyage revenues.

FSO Segment. OPCO owns four FSO units that operate under fixed-rate time charters and fixed-rate bareboat charters. FSO units provide an on-site storage solution to oil field installations that have no oil storage facilities or that require supplemental storage. During the three and six months ended June 30, 2007, this segment generated 7.2% and 5.3%, respectively, of total net voyage revenues. During the three and six months ended June 30, 2006, this segment generated 3.6% and 3.4%, respectively, of total net voyage revenues.

In July 2007, we received an offer from Teekay Corporation to acquire one FSO unit, the *Dampier Spirit*, for a total cost of approximately \$30 million. If accepted by our general partner, this vessel is expected to be acquired directly by us during the second half of 2007, and will operate under a fixed-rate time-charter to Apache Corporation of Australia with a remaining term of approximately seven years.

Our Initial Public Offering

On December 19, 2006, we completed our initial public offering of 8.05 million common units at a price of \$21.00 per unit. The net proceeds from the offering were \$155.2 million. The offering included 1.05 million common units sold to the underwriters in connection with the exercise of their over-allotment option. We used the net proceeds to repay a \$134.6 million promissory to Teekay Corporation and to redeem 1.05 million common units from Teekay Corporation for \$20.6 million.

Page 16 of 33

Potential Additional FPSO, FSO and Shuttle Tanker Projects

Pursuant to an omnibus agreement we entered into in connection with our initial public offering, Teekay Corporation is obligated to offer us certain shuttle tankers, FSO units, and FPSO units it may acquire in the future, provided the vessels are servicing contracts in excess of three years in length.

Teekay Corporation has ordered four Aframax shuttle tanker newbuildings, which are scheduled to deliver in 2010 and 2011, for a total delivered cost of approximately \$445 million. It is anticipated that these vessels will be offered to us and will be used to service either new long-term, fixed-rate contracts Teekay Corporation may be awarded prior to delivery, or to service OPCO's contracts-of-affreightment in the North Sea.

The omnibus agreement also obligates Teekay Corporation to offer to us (a) its interest in certain future FPSO and FSO projects it may undertake through its 50%-owned joint venture with Teekay Petrojarl ASA and (b) if Teekay Corporation obtains 100% ownership of Teekay Petrojarl ASA, its existing FPSO units that are servicing contracts in excess of three years in length owned by Teekay Petrojarl ASA. In August 2007, Teekay Corporation had a 65% ownership interest in Teekay Petrojarl ASA.

OPCO's Contracts of Affreightment and Charters

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

Contracts of affreightment, whereby OPCO carries an agreed quantity of cargo for a customer over a specified trade route within a given period of time;

Time charters, whereby vessels OPCO operates and is responsible for crewing are chartered to customers for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates or current market rates;

Bareboat charters, whereby customers charter vessels for a fixed period of time at rates that are generally fixed, but the customers operate the vessels with their own crews; and

- Voyage charters*, which are charters for shorter intervals that are priced on a current, or "spot" market rate.

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

	<u>Contract of Affreightment</u>	<u>Time Charter</u>	<u>Bareboat Charter</u>	<u>Voyage Charter (1)</u>
Typical contract length	One year or more	One year or more	One year or more	Single voyage
Hire rate basis ⁽²⁾	Typically daily	Daily	Daily	Varies
Voyage expenses ⁽³⁾	OPCO pays	Customer pays	Customer pays	OPCO pays
Vessel operating expenses ⁽³⁾	OPCO pays	OPCO pays	Customer pays	OPCO pays
Off-hire ⁽⁴⁾	Customer typically does not pay	Varies	Customer typically pays	Customer does not pay

(1) Under a consecutive voyage charter, the customer pays for idle time.

- (2) “*Hire*” rate refers to the basic payment from the charterer for the use of the vessel.
- (3) Defined below under “Important Financial and Operational Terms and Concepts.”
- (4) “*Off-hire*” refers to the time a vessel is not available for service.

Important Financial and Operational Terms and Concepts

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

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

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

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

Page 17 of 33

Vessel Operating Expenses. Under all types of charters except for bareboat charters, the shipowner is responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. The two largest components of OPCO's vessel operating expenses are for crews and repairs and maintenance.

Expenses for repairs and maintenance tend to fluctuate from period to period because most repairs and maintenance typically occur during periodic drydockings. Please read "Drydocking" below. We expect these expenses to increase as the fleet matures and expands, particularly to the extent we acquire vessels directly through our wholly owned subsidiaries rather than through OPCO, which we partially own.

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

Income from Vessel Operations. To assist us in evaluating operations by segment, at times we analyze the income OPCO receives from each segment after deducting operating expenses, but prior to the deduction of interest expense, taxes, foreign currency exchange gains and losses and other income and losses.

Drydocking. OPCO must periodically drydock each of its shuttle tankers and conventional oil tankers for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. OPCO may drydock FSO units if it desires to qualify them for shipping classification. Generally, each shuttle tanker and conventional oil tanker is drydocked every two and a half to five years, depending upon the type of vessel and its age. We capitalize a substantial portion of the costs incurred during drydocking and amortize those costs on a straight-line basis from the completion of a drydocking to the estimated completion of the next drydocking. We expense as incurred costs for routine repairs and maintenance performed during drydocking that do not improve or extend the useful lives of the assets. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

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

- charges related to the depreciation of the historical cost of OPCO's fleet (less an estimated residual value) over the estimated useful lives of the vessels;
- charges related to the amortization of drydocking expenditures over the estimated number of years to the next scheduled drydocking; and
- charges related to the amortization of the fair value of contracts of affreightment where amounts have been attributed to those items in acquisitions; these amounts are amortized over the period the asset is expected to contribute to future cash flows.

Time Charter Equivalent Rates. Bulk shipping industry freight rates are commonly measured in the shipping industry at the net voyage revenues level in terms of "time charter equivalent" (or *TCE*) rates, which represent net voyage revenues divided by revenue days.

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

Average Number of Ships. Historical average number of ships consists of the average number of owned (excluding vessels owned by OPCO's five 50%-owned joint ventures) and chartered-in vessels that were in OPCO's possession

during a period. Following the closing of our initial public offering, average number of ships consists of the average number of chartered-in and owned vessels (including vessels owned by five of OPCO's 50%-owned joint ventures, as OPCO obtained control of these joint ventures as of December 1, 2006, as described below) that are in OPCO's possession during the periods. We use average number of ships primarily to highlight changes in vessel operating expenses, time charter hire expense and depreciation and amortization.

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

Seasonality

Historically, the utilization of shuttle tankers in the North Sea is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to our vessels and to the offshore oil platforms. Downtime for repairs and maintenance generally reduces oil production and, thus, transportation requirements. OPCO generally has not experienced seasonality in its FSO and conventional tanker segments.

Items You Should Consider When Evaluating Our Results of Operations

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

§ ***Our cash flow is reduced by distributions on Teekay Corporation's interest in OPCO.*** Following the closing of our initial public offering, Teekay Corporation has a 74% limited partner interest in OPCO. OPCO's partnership agreement requires it to distribute all of its available cash each quarter. In determining the amount of cash available for distribution, the Board of Directors of our general partner must approve the amount of cash reserves to be set aside at OPCO, including reserves for future maintenance capital expenditures, working capital and other matters. Distributions by OPCO to Teekay Corporation as one of its limited partners will reduce our cash flow compared to historical results.

- § ***On July 1, 2006, OPCO transferred certain assets to Teekay Corporation that are included in historical results of operations.*** On July 1, 2006, prior to our initial public offering, OPCO transferred to Teekay Corporation a subsidiary of Norsk Teekay Holdings Ltd. (Navion Shipping Ltd.) that chartered-in approximately 25 conventional tankers since 2004 and subsequently time-chartered the vessels back to Teekay Corporation at charter rates that provided for a 1.25% fixed profit margin. In addition, OPCO transferred to Teekay Corporation a 1987-built shuttle tanker (the *Nordic Trym*), OPCO's single-anchor loading equipment, a 1992-built in-chartered shuttle tanker (the *Borga*) and a 50% interest in Alta Shipping S.A., which has no material assets (collectively with Navion Shipping Ltd., the *Non-OPCO Assets*). During the three and six months ended June 30, 2006, the Non-OPCO Assets accounted for approximately 22.2% and 26.0% of OPCO's net voyage revenues, respectively.
- § ***Amendments to OPCO's joint venture agreements have resulted in five 50%-owned joint venture companies being consolidated with us under GAAP.*** Our historical results of operations prior to December 1, 2006 reflect OPCO's investment in five 50%-owned joint venture companies, accounted for using the equity method, whereby the investment is carried at the original cost plus OPCO's proportionate share of undistributed earnings. On December 1, 2006, the operating agreements for these joint ventures were amended such that OPCO obtained control of these joint ventures, resulting in the consolidation of these five joint venture companies in accordance with GAAP. Although our net income will not change due to this change in accounting, the results of the joint ventures are reflected in our income from operations, commencing December 1, 2006. This change also resulted in the five shuttle tankers owned by these joint ventures to be included in the number of vessels in OPCO's owned fleet for periods subsequent to December 1, 2006.
- § ***The size of OPCO's fleet continues to change.*** Our historical results of operations reflect changes in the size and composition of OPCO's fleet due to certain vessel deliveries and vessel dispositions. For instance, in addition to the decrease in chartered-in vessels associated with the transfer of Navion Shipping Ltd. described above, the average number of owned vessels in OPCO's shuttle tanker fleet increased from 21 in 2006 to 24 in 2007. In addition, the *Navion Saga* completed its conversion from a conventional oil tanker to an FSO unit and commenced operations as an FSO unit during the second quarter of 2007. As a result, commencing in the second quarter of 2007, OPCO's FSO fleet includes four vessels, compared to three during recent years. Please read "— Results of Operations" below for further details about vessel dispositions and deliveries. Due to the nature of our business, we expect our fleet to continue to fluctuate in size and composition.
- § ***Our financial results of operations reflect different time charter terms for OPCO's nine conventional tankers.*** On October 1, 2006, OPCO entered into new fixed-rate time charters with a subsidiary of Teekay Corporation for OPCO's nine conventional tankers at rates we believe were market-based charter rates. Under the terms of eight of these nine time-charter contracts, OPCO is responsible for the bunker fuel expenses; however, OPCO will add the approximate amounts of these expenses to the daily hire rate. Please read Item 1 - Financial Statements: Note 10 - Related Party Transactions. At various times during the previous three years, eight of these nine conventional tankers were employed on time charters with the same subsidiary of Teekay Corporation. However, the charter rates were generally lower than market-based charter rates, as they were based on the cash flow requirements of each vessel, which included operating expenses, loan principal and interest payments and drydock expenditures. A ninth conventional tanker was employed on voyage charters. The new fixed-rate time charters have increased our voyage revenues as well as provided more stable voyage revenues for these vessels.
- § ***Our financial results of operations are affected by fluctuations in currency exchange rates.*** Prior to the closing of our initial public offering, OPCO settled its foreign currency denominated advances. In October 2006, Teekay Corporation loaned 5.6 billion Norwegian Kroner (\$863.0 million) to a subsidiary of OPCO primarily for the purchase of eight Aframax-class conventional crude oil tankers from Teekay Corporation. Immediately preceding the initial public offering, this interest-bearing loan was sold to OPCO. Under GAAP, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, accounts payable, advances from affiliates and deferred income taxes are revalued and reported based on the prevailing exchange rate at the end of the period. Most of our historical foreign currency gains and losses prior to

our initial public offering are attributable to this revaluation in respect of our foreign currency denominated advances from affiliates. In addition, a substantial majority of OPCO's crewing expenses historically have been denominated in Norwegian Kroners, which is primarily a function of the nationality of the crew. Fluctuations in the Norwegian Kroner relative to the U.S. Dollar have caused fluctuations in operating results. Prior to our initial public offering, OPCO entered into new services agreements with subsidiaries of Teekay Corporation whereby the subsidiaries operate and crew the vessels. Under these service agreements, OPCO pays all vessel operating expenses in U.S. Dollars, and will not be subject to currency exchange fluctuations until 2009. Beginning in 2009, payments under the service agreements will adjust to reflect any change in Teekay Corporation's cost of providing services based on fluctuations in the value of the Kroner relative to the U.S. Dollar. We may seek to hedge this currency fluctuation risk in the future.

§ ***We have entered into services agreements with subsidiaries of Teekay Corporation.*** Prior to the closing of our initial public offering, we, OPCO and certain of its subsidiaries entered into services agreements with subsidiaries of Teekay Corporation, pursuant to which those subsidiaries provide certain services, including strategic consulting, advisory, ship management, technical and administrative services. Our cost for these services depends on the amount and types of services provided during each period. The services are valued at an arm's-length rate that will include reimbursement of reasonable direct or indirect expenses incurred to provide the services. We also reimburse our general partner for all expenses it incurs on our behalf, including CEO/CFO compensation and expenses relating to its Board of Directors, including compensation, travel and liability insurance costs. We may also grant equity compensation that would result in an expense to us.

Page 19 of 33

§ *We are incurring additional general and administrative expenses.* As a result of being a publicly-traded limited partnership, since our initial public offering on December 19, 2006, we have begun to incur costs associated with annual reports to unitholders and SEC filings, investor relations, NYSE annual listing fees and tax compliance expenses.

Results of Operations

In accordance with GAAP, we report gross voyage revenues in our income statements and include voyage expenses among our operating expenses. However, shipowners base economic decisions regarding the deployment of their vessels upon anticipated 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 voyage revenues (i.e. voyage revenues less voyage expenses) and TCE rates of our three reportable segments where applicable. Please read Item 1 – Financial Statements: Note 4 – Segment Reporting.

The following tables compares our operating results by reportable segment for the three and six months ended June 30, 2007 and 2006, and compares our net voyage revenues (which is a non-GAAP financial measure) by reportable segment for three and six months ended June 30, 2007 and 2006 to voyage revenues, the most directly comparable GAAP financial measure:

	Three Months Ended June 30,							
	2007				2006			
	Shuttle Tanker Segment (\$000's)	Conventional Tanker Segment (\$000's)	FSO Segment (\$000's)	Total (\$000's)	Shuttle Tanker Segment (\$000's)	Conventional Tanker Segment (\$000's)	FSO Segment (\$000's)	Total (\$000's)
Voyage revenues	144,418	33,759	11,012	189,189	123,593	52,152	5,963	181,708
Voyage expenses	27,020	9,689	96	36,805	22,249	1,536	261	24,046
Net voyage revenues	117,398	24,070	10,916	152,384	101,344	50,616	5,702	157,662
Vessel operating expenses	24,885	5,060	3,614	33,559	18,722	5,446	1,890	26,058
Time charter expense	36,473	-	-	36,473	40,455	37,588	-	78,043
Depreciation and amortization	19,825	5,110	4,098	29,033	17,672	5,408	2,381	25,461
General and administrative ⁽¹⁾	13,736	1,835	677	16,248	13,221	7,905	492	21,618
Vessels and equipment writedowns	-	-	-	-	2,150	-	-	2,150
Restructuring charge	-	-	-	-	-	453	-	453
Income from vessel operations	22,479	12,065	2,527	37,071	9,124	(6,184)	939	3,879

	Six Months Ended June 30,							Total (\$000's)
	2007			2006				
	Shuttle Tanker Segment (\$000's)	Conventional Tanker Segment (\$000's)	FSO Segment (\$000's)	Shuttle Tanker Segment (\$000's)	Conventional Tanker Segment (\$000's)	FSO Segment (\$000's)	Total (\$000's)	
Voyage revenues	290,564	72,648	16,729	379,941	263,203	111,555	11,966	386,724
Voyage expenses	51,841	19,153	346	71,340	44,690	3,131	523	48,344
Net voyage revenues	238,723	53,495	16,383	308,601	218,513	108,424	11,443	338,380
Vessel operating expenses	47,628	11,062	5,088	63,778	38,407	11,031	3,516	52,954
Time charter expense	74,588	-	-	74,588	86,292	79,338	-	165,630
Depreciation and amortization	40,520	10,695	6,409	57,624	35,811	10,787	4,733	51,331
General and administrative ⁽¹⁾	26,444	3,858	1,120	31,422	27,187	15,313	969	43,469
Vessels and equipment writedowns	-	-	-	-	2,150	-	-	2,150
Restructuring charge	-	-	-	-	-	453	-	453
Income from vessel operations	49,543	27,880	3,766	81,189	28,666	(8,498)	2,225	22,393

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

Three and Six Months Ended June 30, 2007 versus Three and Six Months Ended June 30, 2006

Shuttle Tanker Segment

The following table provides a summary of the changes in the average number of ships owned and chartered-in for the shuttle tanker segment:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007 (Average Number of Ships)	2006 (Average Number of Ships)	Percentage Change (%)	2007 (Average Number of Ships)	2006 (Average Number of Ships)	Percentage Change (%)
Owned Vessels	24	21	14	24	21	14
Chartered-in Vessels	12	13	(8)	12	14	(14)
Total	36	34	6	36	35	3

The average size of OPCO's owned shuttle tanker fleet increased for the three and six months ended June 30, 2007 compared to the same periods in 2006, primarily as the result of:

§ the consolidation into our results of the five vessels owned by OPCO's 50%-owned joint ventures, effective December 1, 2006 upon amendments to the applicable operating agreements, which granted OPCO control of the joint ventures (the *Consolidation of Joint Ventures*);

partially offset by

§ the sale of a 1981-built shuttle tanker (the *Nordic Laurita*) in July 2006 to a third party and the sale of a 1987-built shuttle tanker (the *Nordic Trym*) to Teekay Corporation in November 2006 (collectively, the *2006 Shuttle Tanker Dispositions*).

The average size of OPCO's chartered-in shuttle tanker fleet decreased for the three and six months ended June 30, 2007 compared to the same periods in 2006, primarily as the result of:

§ the redelivery of one chartered-in vessel back to its owner in April 2006; and

§ the sale in July 2006 of a time charter-in contract for a 1992-built shuttle tanker (the *Borga*) to Teekay Corporation;

Net Voyage Revenues. Net voyage revenues increased 15.9% and 9.2% to \$117.4 million and \$238.7 million, respectively, for the three and six months ended June 30, 2007, from \$101.3 million and \$218.5 million for the same periods in 2006. These increases were primarily due to:

- § increases of \$12.0 million and \$23.9 million, respectively, for the three and six months ended June 30, 2007, due to the Consolidation of Joint Ventures;
- § increases of \$5.6 million and \$2.1 million, respectively, for the three and six months ended June 30, 2007, in revenues due to (a) the redeployment of idle shuttle tankers servicing contracts of affreightment in the conventional spot market at a higher average charter rate than the same periods last year due to a strong conventional market in 2007, and an increase in revenue days during the three months ended June 30, 2007 due to the earlier-than-normal annual seasonal maintenance on certain North Sea oil field facilities in the second quarter of 2006 compared to the same period in 2007, partially offset by (b) fewer revenue days for shuttle tankers servicing contracts of affreightment during the first half of 2007 due to a decline in oil production from mature oil fields in the North Sea;
- § increases of \$3.1 million and \$6.2 million, respectively, for the three and six months ended June 30, 2007, due to the redeployment of excess capacity of one shuttle tanker from servicing contracts of affreightment to a bareboat charter; and
- § an increase of \$2.8 million for the six months ended June 30, 2007, due to the renewal of certain vessels on time charter contracts at higher daily rates during 2006;

partially offset by

- § decreases of \$2.3 million and \$6.4 million, respectively, for the three and six months ended June 30, 2007, due to the 2006 Shuttle Tanker Dispositions;
- § decreases of \$1.5 million and \$3.8 million, respectively, for the three and six months ended June 30, 2007, due to the sale of the time charter-in contract for the *Borga*; and
- § decreases of \$0.2 million and \$2.9 million, respectively, for the three and six months ended June 30, 2007, from the redelivery of one chartered-in vessel to its owner in April 2006.

Vessel Operating Expenses. Vessel operating expenses increased 32.6% and 24.0% to \$24.8 million and \$47.6 million, respectively, for the three and six months ended June 30, 2007, from \$18.7 million and \$38.4 million for the same periods in 2006. These increases were primarily due to:

- § increases of \$4.2 million and \$8.1 million, respectively, for the three and six months ended June 30, 2007, due to the Consolidation of Joint Ventures;
- § increases of \$1.7 million and \$3.0 million, respectively, for the three and six months ended June 30, 2007, in salaries for crew and officers primarily due to general wage escalations and a change in the crew rotation system;
- § increases of \$0.3 million and \$0.7 million, respectively, for the three and six months ended June 30, 2007, relating to higher insurance, service, port and other operating costs; and
- § an increase of \$0.4 million relating to repairs and maintenance for certain vessels during the three months ended June 30, 2007;

partially offset by

§ decreases of \$0.7 million and \$1.9 million, respectively, for the three and six months ended June 30, 2007, due to the 2006 Shuttle Tanker Dispositions; and

§ a relative decrease of \$0.7 million relating to repairs and maintenance for certain vessels during the six months ended June 30, 2006.

Time-Charter Hire Expense. Time-charter hire expense decreased 9.9% and 13.6%, respectively, to \$36.5 million and \$74.6 million for the three and six months ended June 30, 2007, from \$40.5 million and \$86.3 million, for the same periods in 2006. These decreases were primarily due to the decrease in the average number of vessels chartered-in.

Depreciation and Amortization. Depreciation and amortization expense increased 11.9% and 13.1% to \$19.8 million and \$40.5 million, respectively, for the three and six months ended June 30, 2007, from \$17.7 million and \$35.8 million for the same periods in 2006. These increases were primarily due to:

§ increases of \$3.7 million and \$7.4 million, respectively, for the three and six months ended June 30, 2007, due to the Consolidation of Joint Ventures; and

§ increases of \$1.2 million and \$1.8 million, respectively, for the three and six months ended June 30, 2007, from the amortization of vessel upgrades and drydock costs incurred during 2006 and the first half of 2007;

partially offset by

Page 22 of 33

§ decreases of \$2.3 million and \$4.0 million, respectively, for the three and six months ended June 30, 2007, relating to the 2006 Shuttle Tanker Dispositions.

Depreciation and amortization expense included amortization of drydocking costs of \$1.6 million and \$3.3 million for the three and six months ended June 30, 2007, respectively, compared to \$1.2 million and \$2.5 million for the same periods in 2006, and included amortization of contracts of \$2.5 million and \$5.5 million for the three and six months ended June 30, 2007, respectively, compared to compared to \$3.0 million and \$6.0 million for the same periods in 2006.

Conventional Tanker Segment

The following table provides a summary of the changes in the average number of ships owned and chartered-in for the conventional tanker segment:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007 (Average Number of Ships)	2006 (Average Number of Ships)	Percentage Change (%)	2007 (Average Number of Ships)	2006 (Average Number of Ships)	Percentage Change (%)
Owned Vessels	9	10	(10)	9	10	(10)
Chartered-in Vessels	-	24	(100)	-	24	(100)
Total	9	34	(74)	9	34	(74)

The average size of the conventional crude oil tanker fleet (including vessels chartered-in) decreased for the three and six months ended June 30, 2007, compared to the same periods in 2006. These decreases were the primarily the result of:

§ the sale of Navion Shipping Ltd. to Teekay Corporation during July 2006. Navion Shipping Ltd. chartered-in approximately 25 conventional tankers since 2004 and subsequently time-chartered the vessels back to Teekay Corporation at charter rates that provided for a 1.25% fixed profit margin (please read *Items You Should Consider When Evaluating Our Results – On July 1, 2006, OPCO transferred certain assets to Teekay Corporation that are included in historical results of operations*); and

§ the transfer of the *Navion Saga* to the FSO segment, for the three months ended June 30, 2007, as a result of the completion of its conversion to an FSO unit and commencing a three-year FSO time charter contract in early May 2007. Prior to the completion of the vessel's conversion to an FSO unit, it was included as a conventional crude oil tanker within the conventional tanker segment.

Net Voyage Revenues. Net voyage revenues decreased 52.4% and 50.6% to \$24.1 million and \$53.5 million, respectively, for the three and six months ended June 30, 2007, from \$50.6 million and \$108.4 million for the same periods in 2006. These decreases were primarily due to:

§ decreases of \$37.8 million and \$80.0 million, respectively, for the three and six months ended June 30, 2007, from the sale of Navion Shipping Ltd.;

partially offset by

§ increases of \$10.4 million and \$21.3 million, respectively, for the three and six months ended June 30, 2007, from higher hire rates earned by the nine owned Aframax-class conventional tankers on time charters with a subsidiary

of Teekay Corporation (please read *Items You Should Consider When Evaluating Our Results – Our financial results of operations reflect different time charter terms for OPCO's nine conventional tankers*); and

§ increases of \$0.8 million and \$3.7 million, respectively, for the three and six months ended June 30, 2007, relating to the *Navion Saga* temporarily trading in the spot market as a conventional crude oil tanker until it was transferred to the FSO segment in early May 2007, compared to the same periods last year when the vessel was employed on a time charter with a subsidiary of Teekay Shipping Corporation at a lower daily hire rate.

Vessel Operating Expenses. Vessel operating expenses decreased 5.6% to \$5.1 million for the three months ended June 30, 2007, from \$5.4 million for the same period in 2006. This decrease was primarily due to the transfer of the *Navion Saga* to the FSO segment in early May 2007, partially offset by an increase in salaries for crew and officers as a result of general wage escalations. Vessel operating expenses for the six months ended June 30, 2007 remained substantially unchanged from the same period in 2006.

Time-Charter Hire Expense. Due to the sale of Navion Shipping Ltd to Teekay Corporation in July 2006, OPCO did not incur any time-charter hire expense for the conventional tanker fleet during the three and six months ended June 30, 2007, compared to \$37.6 million and \$79.4 million for the same periods in 2006, respectively.

Depreciation and Amortization. Depreciation and amortization for the three and six months ended June 30, 2007 remained substantially unchanged from the same periods in 2006.

FSO Segment

The following table provides a summary of the changes in the average number of ships for the FSO segment.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007 (Average Number of Ships)	2006 (Average Number of Ships)	Percentage Change (%)	2007 (Average Number of Ships)	2006 (Average Number of Ships)	Percentage Change (%)
Owned Vessels	4	3	33	3	3	-

During 2006, OPCO operated three FSO units. A fourth FSO unit, the *Navion Saga*, was included as a conventional crude oil tanker within the conventional tanker segment until its conversion to an FSO unit was completed and it commenced a three-year FSO time charter contract commencing in early May 2007.

The operating results for the FSO segment for the three and six months ended June 30, 2007 increased from the same periods in 2006 primarily due to the inclusion of the operating results of the *Navion Saga* in the second quarter of 2007.

Other Operating Results

General and Administrative Expenses. General and administrative expenses decreased 25.0% and 27.8% to \$16.2 million and \$31.4 million, respectively, for the three and six months ended June 30, 2007, from \$21.6 million and \$43.5 million for the same periods in 2006. These decreases were primarily due to:

§ decreases of \$7.9 million and \$14.3 million, respectively, for the three and six months ended June 30, 2007 in general and administrative expenses (through services agreements we, OPCO and certain of its subsidiaries entered into with subsidiaries of Teekay Corporation in connection with our initial public offering), allocated to us from Teekay Corporation as a result of the sale of Navion Shipping Ltd. to Teekay Corporation in July 2006. Prior to our initial public offering, general and administrative expenses were allocated based on OPCO's proportionate share of Teekay Corporation's total ship-operating (calendar) days for each of the periods presented;

partially offset by

§ increases of \$0.5 million and \$1.0 million, respectively, for the three and six months ended June 30, 2007 relating to additional expenses as a result of our being a publicly-traded limited partnership since our initial public offering in December 2006; and

§ increases of \$2.1 million and \$1.2 million, respectively, for the three and six months ended June 30, 2007 relating to an increase in shore-based compensation, travel and consulting fees.

Interest Expense. Interest expense increased 37.5% and 47.3% to \$17.6 million and \$36.1 million, respectively, for the three and six months ended June 30, 2007, from \$12.8 million and \$24.5 million for the same periods in 2006. These increases were primarily due to:

§ increases of \$10.3 million and \$20.6 million, respectively, for the three and six months ended June 30, 2007 relating to additional debt of \$745 million under a new revolving credit facility entered into during the fourth quarter of 2006; and

§

increases of \$3.2 million and \$6.4 million, respectively, for the three and six months ended June 30, 2007 due to the Consolidation of Joint Ventures;

partially offset by

§ decreases of \$3.4 million and \$6.8 million, respectively, for the three and six months ended June 30, 2007, relating to the settlement of interest-bearing advances from affiliates during the fourth quarter of 2006;

§ decreases of \$2.5 million and \$4.2 million for the three and six months ended June 30, 2007, relating to interest incurred on one of the revolving credit facilities, which was prepaid and cancelled prior to our initial public offering; and

§ decreases of \$2.3 million and \$4.6 million, respectively, for the three and six months ended June 30, 2007, relating to interest incurred by the Predecessor on one of its revolving credit facilities, which was not transferred to OPCO prior to our initial public offering.

Interest Income. Interest income decreased 23.5% and 24.2% to \$1.3 million and \$2.5 million, respectively, for the three and six months ended June 30, 2007, from \$1.7 million and \$3.3 million for the same periods in 2006, primarily due to a decrease in average cash balances during the three months and six months ended June 30, 2007 compared to the same periods last year.

Equity Income From Joint Ventures. Equity income from OPCO's 50%-owned joint ventures was \$1.3 million and \$3.2 million for the three and six months ended June 30, 2006, respectively. On December 1, 2006, the operating agreements for these joint ventures were amended, resulting in OPCO obtaining control of these joint ventures and, consequently, OPCO has consolidated these entities effective December 1, 2006.

Foreign Currency Exchange Losses. Foreign currency exchange losses were \$5.8 million and \$10.0 million, respectively, for the three and six months ended June 30, 2007, compared to foreign currency exchange losses of \$13.7 million and \$18.7 million for the same periods in 2006. These foreign currency exchange losses, substantially all of which were unrealized, are due primarily to the relevant period-end revaluation of Norwegian Kroner-denominated monetary assets and liabilities for financial reporting purposes. Gains reflect a stronger U.S. Dollar against the Kroner on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses reflect a weaker U.S. Dollar against the Kroner on the date of revaluation or settlement compared to the rate in effect at the beginning of the period.

Page 24 of 33

Income Tax Recovery (Expense). Income tax expense was \$0.5 million for the three months ended June 30, 2007, compared to income tax expense of \$5.3 million for the same period in 2006. Income tax recovery was \$3.4 million for the six months ended June 30, 2007, compared to income tax expense of \$7.8 million for the same period in 2006. The \$4.8 million and \$11.2 million increases in income tax recoveries, respectively, were primarily due to an increase in deferred income tax recoveries from the financial restructuring of our Norwegian shuttle tanker operations during 2006.

Other Income. Other income for the three and six months ended June 30, 2007 and 2006 was \$2.6 million and \$5.3 million, and \$3.0 million and \$5.7 million, respectively, which was primarily comprised of leasing income from the VOC Equipment.

Non-controlling Interest. Non-controlling interest for the three and six months ended June 30, 2007 primarily reflects Teekay Corporation's 74.0% interest in OPCO.

Net Income. As a result of the foregoing factors, net income was \$3.7 million and \$10.5 million for the three and six months ended June 30, 2007, respectively, compared to a net loss of \$22.3 million and \$16.8 million for the same periods in 2006, respectively.

Liquidity and Capital Resources

Liquidity and Cash Needs

As at June 30, 2007, our total cash and cash equivalents were \$100.7 million, compared to \$114.0 million at December 31, 2006. Our total liquidity including cash, cash equivalents and undrawn long-term borrowings, was \$386.6 million as at June 30, 2007, compared to \$429.0 million as at December 31, 2006. The decrease in liquidity was primarily the result of payment of cash distributions by us and OPCO and expenditures for vessels and equipment, partially offset by cash generated by our operating activities during the six months ended June 30, 2007.

In addition to distributions on our equity interests, our primary short-term liquidity needs are to fund general working capital requirements and drydocking expenditures, while our long-term liquidity needs primarily relate to expansion and investment capital expenditures and other maintenance capital expenditures and debt repayment. Expansion capital expenditures are primarily for the purchase or construction of vessels to the extent the expenditures increase the operating capacity of or revenue generated by our fleet, while maintenance capital expenditures primarily consist of drydocking expenditures and expenditures to replace vessels in order to maintain the operating capacity of or revenue generated by our fleet. Investment capital expenditures are those capital expenditures that are neither maintenance capital expenditures nor expansion capital expenditures.

We anticipate that our primary sources of funds for our short-term liquidity needs will be cash flows from operations. We believe that cash flows from operations will be sufficient to meet our existing liquidity needs for at least the next 12 months. Generally, our long-term sources of funds will be from cash from operations, long-term bank borrowings and other debt or equity financings, or a combination thereof. Because we and OPCO distribute all of our and its available cash, we expect that we and OPCO will rely upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and expansion and investment capital expenditures, including opportunities we may pursue under the omnibus agreement.

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

	Six Months Ended June 30,
	2007
	2006
	((\$000's)
	((\$000's)

Net cash flow from operating activities	15,596	48,210
Net cash flow from financing activities	(31,903)	(42,107)
Net cash flow from investing activities	3,039	(1,127)

Operating Cash Flows. Net cash flow from operating activities decreased to \$15.6 million for the six months ended June 30, 2007, from \$48.2 million for the same period in 2006, primarily reflecting (a) a \$23.8 million increase in cash distributions paid to non-controlling interest owners by OPCO, a \$15.1 million increase in drydocking expenditures and an increase in interest expense from our new revolving credit facility which we entered into during the fourth quarter of 2006, partially offset by (b) an increase in cash flows from operations due to an increase in the hire rate earned by our nine conventional tankers, which are on time charters with a subsidiary of Teekay Corporation, and an increase in the hire rate temporarily earned by the *Navion Saga*, which was trading in the spot market as a conventional crude oil tanker during the four months ended April 30, 2007 and as an FSO unit during the two months ended June 30, 2007. Net cash flow from operating activities depends upon the timing and amount of drydocking expenditures, repairs and maintenance activity, vessel additions and dispositions, foreign currency rates, changes in interest rates, fluctuations in working capital balances and spot market hire rates. The number of vessel drydockings tends to be uneven between years.

Financing Cash Flows. Prior to our initial public offering in December 2006, advances under revolving credit facilities, advances from Teekay Corporation and net cash flow from operations were used to finance OPCO's investments in vessels and equipment and direct financing leases. Historically, advances under the revolving credit facilities have been loaned to Teekay Corporation to temporarily finance vessel construction and for other general corporate purposes. In effect, prior to the initial public offering these revolving credit facilities were used as corporate-related debt of Teekay Corporation. Net proceeds from long-term debt, prepayments of long-term debt and net advances to affiliates during the periods prior to our initial public offering reflect this use. Prior to our initial public offering, OPCO settled its advances from affiliates, which as at June 30, 2006 totaled \$394.8 million.

Page 25 of 33

Scheduled debt repayments were \$6.4 million during the six months ended June 30, 2007. Net proceeds from long-term debt of \$70.0 million and surplus cash balances of \$16 million were used to make debt prepayments of \$86 million during the six months ended June 30, 2007.

Cash distributions paid during the six months ended June 30, 2007 totaled \$8.0 million. Subsequent to June 30, 2007, cash distributions were declared and paid on August 14, 2007 for the three months ended June 30, 2007 and totaled \$7.0 million. Our management intends to recommend to the Board of Directors an increase in our quarterly distributions to \$0.385 per unit (or \$1.54 per unit on an annualized basis), commencing with the third quarter distribution.

Investing Cash Flows. During the six months ended June 30, 2007 and 2006, OPCO incurred \$2.0 million and \$5.2 million, respectively, in investments in direct financing leases, and incurred \$5.2 million and \$5.1 million, respectively, of expenditures for vessels and equipment. During the six months ended June 30, 2007 and 2006, OPCO received \$10.2 million and \$9.1 million, respectively, in scheduled repayments received from the leasing of our VOC Equipment.

Credit Facilities

As at June 30, 2007, our total debt was \$1,281.0 million, compared to \$1,303.4 million as at December 31, 2006. As at June 30, 2007, we had two revolving credit facilities available, which, as at such date, provided for borrowings of up to \$1,349.9 million, of which \$285.9 million was undrawn. As at June 30, 2007, each of our five 50%-owned joint ventures had an outstanding term loan, which totaled \$217.0 million. The term loans reduce in semi-annual payments with varying maturities through 2015. Please read Item 1 – Financial Statements: Note 7 – Long-Term Debt.

In October 2006, OPCO amended one of its revolving credit facilities, terminated the other two and entered into a new \$940 million revolving credit facility. The existing facilities have the following terms:

§ *Amended Revolving Credit Facility.* This 8-year amended reducing revolving credit facility allows OPCO and its subsidiaries to borrow up to \$455 million and may be used for acquisitions and for general partnership purposes. Obligations under this credit facility are collateralized by first-priority mortgages on eight of our vessels. Borrowings under the facility may be prepaid at any time in amounts of not less than \$5.0 million.

§ *New Revolving Credit Facility.* This 8-year reducing revolving credit facility allows for borrowing of up to \$940 million and may be used for acquisitions and for general partnership purposes. Obligations under this credit facility are secured by first-priority mortgages on 19 of our vessels. Borrowings under the facility may be prepaid at any time in amounts of not less than \$5.0 million. This credit facility allows OPCO to make working capital borrowings and loan the proceeds to us (which we could use to make distributions, provided that such amounts are paid down annually).

OPCO's two revolving credit facilities contain covenants that require OPCO to maintain the greater of a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines) of \$75.0 million and at least 5.0% of our total consolidated debt, which as at June 30, 2007 was \$64.0 million. OPCO's minimum liquidity as at June 30, 2007 was \$386.6 million. As at June 30, 2007, OPCO was in compliance with all of its covenants.

OPCO's term loans are collateralized by first-priority mortgages on the vessels to which the loans relate, together with other related collateral. As at June 30, 2007, we had guaranteed \$44.3 million of these term loans, which represents OPCO's 50% share of the outstanding vessel mortgage debt in two of these 50%-owned joint venture companies. Teekay Corporation and our joint venture partner have guaranteed the remaining \$172.7 million.

Interest payments on the revolving credit facilities and term loans are based on LIBOR plus a margin. At June 30, 2007 and December 31, 2006, the margins ranged between 0.45% and 0.80%.

All of the OPCO's vessel financings are collateralized by the applicable vessels. The term loans used to finance the five 50%-owned joint venture shuttle tankers and OPCO's two revolving credit facility agreements contain typical covenants and other restrictions, including those that restrict the relevant subsidiaries from:

- incurring or guaranteeing indebtedness;
- changing ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- making dividends or distributions when in default of the relevant loans;
- making capital expenditures in excess of specified levels;
- making certain negative pledges or granting certain liens;
- selling, transferring, assigning or conveying assets; or
- entering into a new line of business.

We conduct our funding and treasury activities within corporate policies designed to minimize borrowing costs and maximize investment returns while maintaining the safety of the funds and appropriate levels of liquidity for our purposes. We hold cash and cash equivalents primarily in U.S. Dollars.

Contractual Obligations and Contingencies

The following table summarizes our long-term contractual obligations as at June 30, 2007:

	Total	Balance of 2007	2008 and 2009	2010 and 2011	Beyond 2011
		(in millions of U.S. dollars)			
Long-term debt ⁽¹⁾	1,281.0	9.5	104.9	235.2	931.4
Chartered-in vessels (operating leases)	484.8	74.5	155.9	123.5	130.9
Purchase obligation	41.7	-	41.7	-	-
Total contractual obligations	1,807.5	84.0	302.5	358.7	1,062.3

(1) Excludes expected interest payments of \$38.1 million (remainder of 2007), \$145.6 million (2008 and 2009), \$127.7 million (2010 and 2011) and \$116.0 million (beyond 2011). Expected interest payments are based on LIBOR, plus margins which ranged between 0.45% and 0.80% as at June 30, 2007. The expected interest payments do not reflect the effect of related interest rate swaps that hedge certain of the floating-rate debt.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management of our general partner 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 this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For a further description of our material accounting policies, please read Note 1 to our consolidated financial statements for the year ended December 31, 2006, included in our Annual Report on Form 20-F filed with the SEC.

Revenue Recognition

Description. We generate a majority of our revenues from voyages servicing contracts of affreightment and time charters and, to a lesser extent, bareboat charters and spot voyages. Within the shipping industry, the two methods used to account for voyage revenues and expenses are the percentage of completion and the completed voyage methods. Most shipping companies, including us, use the percentage of completion method. For each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In other words, revenues are recognized ratably either from the beginning of when product is loaded for one voyage to when it is loaded for another voyage, or from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next

voyage. We recognize revenues from time charters and bareboat charters daily over the term of the charter as the applicable vessel operates under the charter. We do not recognize revenues during days that the vessel is off-hire.

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

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

Vessel Lives and Impairment

Description. The carrying value of each of our vessels represents its original cost at the time of delivery or purchase less depreciation or impairment charges. We depreciate our vessels on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. The carrying values of our vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. We review vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We measure the recoverability of an asset by comparing its carrying amount to future undiscounted cash flows that the asset is expected to generate over its remaining useful life.

Page 27 of 33

Judgments and Uncertainties. Depreciation is calculated using an estimated useful life of 25 years for our vessels, from the date the vessel was originally delivered from the shipyard, or a shorter period if regulations prevent us from operating the vessels for 25 years. In the shipping industry, the use of a 25-year vessel life for shuttle and conventional tankers has become the prevailing standard. However, the actual life of a vessel may be different, with a shorter life resulting in an increase in the quarterly depreciation and potentially resulting in an impairment loss. The estimates and assumptions regarding expected cash flows require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions. We are not aware of any indicators of impairments nor any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations.

Effect if Actual Results Differ from Assumptions. If we consider a vessel or equipment to be impaired, we recognize impairment in an amount equal to the excess of the carrying value of the asset over its fair market value. The new lower cost basis will result in a lower annual depreciation than before the vessel impairment.

Drydocking

Description. We drydock each of our shuttle tankers and conventional oil tankers periodically for inspection, repairs and maintenance and for any modifications to comply with industry certification or governmental requirements. We capitalize a substantial portion of the costs we incur during drydocking and amortize those costs on a straight-line basis from the completion of the drydocking to the estimated completion of the next drydocking. We expense as incurred costs for routine repairs and maintenance performed during drydocking that do not improve or extend the useful lives of the assets.

Judgments and Uncertainties. Amortization of capitalized drydock expenditures requires us to estimate the period of the next drydocking. While we typically drydock each vessel every two and a half to five years, we may drydock the vessels at an earlier date.

Effect if Actual Results Differ from Assumptions. If we change our estimate of the next drydock date we will adjust our annual amortization of drydocking expenditures.

Goodwill and Intangible Assets

Description. We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as contracts of affreightment, are amortized over time. Our future operating performance will be affected by the amortization of intangible assets and potential impairment charges related to goodwill. Accordingly, the allocation of purchase price to intangible assets and goodwill may significantly affect our future operating results. Goodwill and indefinite lived assets are not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise.

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

Effect if Actual Results Differ from Assumptions. In the fourth quarter of 2006, OPCO completed its annual impairment testing of goodwill using the methodology described above, and determined there was no impairment. If

actual results are not consistent with assumptions and estimates, we may be exposed to a goodwill impairment charge. As at June 30, 2007 and December 31, 2006, the net book value of goodwill was \$127.1 million.

Amortization expense of intangible assets for the three months ended June 30, 2007 and 2006 was \$2.5 million and \$3.0 million, respectively. Amortization expense of intangible assets for the six months ended June 30, 2007 and 2006 was \$5.5 million and \$6.0 million, respectively. If actual results are not consistent with our estimates used to value our intangible assets, we may be exposed to an impairment charge and a decrease in the annual amortization expense of our intangible assets. As at June 30, 2007 and December 31, 2006, the net book value of intangible assets was \$60.9 million and \$66.4 million, respectively.

FORWARD-LOOKING STATEMENTS

This Report on Form 6-K for the three months and six months ended June 30, 2007 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;
- results of operations and revenues and expenses;
- offshore and tanker market fundamentals, including the balance of supply and demand in the offshore and tanker market;
 - future capital expenditures and availability of capital resources to fund capital expenditures;
 - offers of shuttle tankers, FSOs and FPSOs and associated contracts from Teekay Corporation;
 - obtaining offshore projects that we or Teekay Corporation bid on or have been awarded;
 - delivery dates of and financing for newbuildings;
 - the commencement of service of newbuildings under long-term contracts;
 - our liquidity needs; and
 - our exposure to foreign currency fluctuations, particularly in Norwegian Kroner.

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”, “project”, “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 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 applicable industry laws and regulations and 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 or vessel delivery delays; our potential inability to raise financing to purchase additional vessels; our exposure to currency exchange rate fluctuations; changes to the amount of proportion of revenues and expenses denominated in foreign currencies; and other factors detailed from time to time in our periodic reports, including our Annual Report on Form 20-F for the year ended December 31, 2006, filed with the SEC. 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.

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Offshore Partners Predecessor)
JUNE 30, 2007
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 OPCO's unhedged floating-rate borrowings. Significant increases in interest rates could adversely affect operating margins, results of operations and OPCO's ability to service its debt. From time to time, OPCO uses interest rate swaps to reduce exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with the floating-rate debt. Changes in the fair value of our interest rate swaps are recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of an interest rate swap's change in fair value is immediately recognized in income.

The tables below provide information about financial instruments as at June 30, 2007 that are sensitive to changes in interest rates. For debt obligations, the table presents principal payments and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

	Expected Maturity Date							Fair Value Asset/ Liability	Rate ⁽¹⁾
	Balance of 2007	2008	2009	2010	2011	Thereafter	Total		
(in millions of U.S. dollars, except percentages)									
<u>Long-Term Debt:</u>									
U.S. Dollar-denominated ⁽²⁾									
	9.5	55.7	49.2	81.2	154.0	931.4	1,281.0	(1,281.0)	6.0%
<u>Interest Rate Swaps:</u>									
Contract Amount ⁽³⁾	293.2	8.5	543.5	8.5	8.5	613.6	1,475.8	51.6	4.9%
Average Fixed Pay Rate ⁽²⁾	5.4%	4.9%	4.7%	4.9%	4.9%	4.8%	4.9%		

(1) Rate refers to the weighted-average effective interest rate for OPCO's debt, including the margin paid on our floating-rate debt and the average fixed pay rate for interest rate swaps. The average fixed pay rate for interest rate swaps excludes the margin paid on the floating-rate debt, which as of June 30, 2007 ranged from 0.625% to 0.80%.

(2) Interest payments on floating-rate debt and interest rate swaps are based on LIBOR.

(3) 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.

Counterparties to these financial instruments expose us to credit-related losses in the event of nonperformance; however, counterparties to these agreements are major financial institutions, and we consider the risk of loss due to nonperformance to be minimal. Neither we nor OPCO requires collateral from these institutions. Neither we nor OPCO holds or issues interest rate swaps for trading purposes.

Foreign Currency Risk

OPCO's primary economic environment is the international shipping market. This market utilizes the U.S. Dollar as its functional currency. Consequently, virtually all of OPCO's revenues and most of its operating costs are in U.S. Dollars. OPCO incurs certain vessel operating expenses and general and administrative expenses in foreign currencies, the most significant of which is the Norwegian Kroner and, to a lesser extent, Australian Dollars. For the three and six months ended June 30, 2007 and 2006, approximately 49%, 50%, 35%, and 36%, respectively, of vessel operating costs and general and administrative expenses were denominated in Norwegian Kroner.

On the closing of our initial public offering, OPCO entered into new services agreements with subsidiaries of Teekay Corporation whereby the subsidiaries operate and crew OPCO's vessels. Under these service agreements, OPCO pays all vessel operating expenses in U.S. Dollars and will not be subject to Norwegian Kroner exchange fluctuations until 2009. Beginning in 2009, payments under the service agreements will adjust to reflect any change in Teekay Corporation's cost of providing services based on fluctuations in the value of the Norwegian Kroner relative to the U.S. Dollar. We may seek to hedge this currency fluctuation risk in the future. We also incur vessel operating expenses in Australian Dollars for one of our shuttle tankers and have entered into forward contracts as a hedge against changes in the Australian Dollar exchange rates. At June 30, 2007, we were committed to foreign exchange contracts for the forward purchase of approximately Australian Dollars 3.0 million for U.S. Dollars at an average rate of Australian Dollar 1.41 per U.S. Dollar. The foreign exchange forward contracts mature during the remainder of 2007.

To the extent the hedge is effective, changes in the fair value of the forward contract are recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a forward contract's change in fair value is immediately recognized in income.

Although the majority of OPCO's transactions, assets and liabilities are denominated in U.S. Dollars, it had Norwegian Kroner-denominated deferred income taxes of approximately 429.3 million (\$72.8 million) at June 30, 2007. There is a risk that currency fluctuations will have a negative effect on the value of cash flows. Neither we nor OPCO has entered into any forward contracts to protect against currency fluctuations on any future taxes.

Page 31 of 33

TEEKAY OFFSHORE PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Offshore Partners Predecessor)
JUNE 30, 2007

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

None

Item 1A – Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 6-K, you should carefully consider the risk factors discussed in Part I, “Item 3. Key Information” in our Annual Report on Form 20-F for the year ended December 31, 2006, which could materially affect our business, financial condition or results of operations. There have been no material changes in our risk factors from those disclosed in our 2006 Annual Report on Form 20-F.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Submission of Matters to a Vote of Security Holders

None

Item 5 – Other Information

None

Item 6 – Exhibits

The following exhibits are filed as part of this Report:

- 3.1 Certificate of Limited Partnership of Teekay Offshore Partners L.P. (1)
- 3.2 First Amended and Restated Agreement of Limited Partnership of Teekay Offshore Partners L.P. (2)
- 3.3 Certificate of Formation of Teekay Offshore GP L.L.C. (1)
- 3.4 Amended and Restated Limited Liability Company Agreement of Teekay Offshore GP L.L.C. (1)
- 3.5 Certificate of Limited Partnership of Teekay Offshore Operating L.P. (1)
- 3.6 Amended and Restated Agreement of Limited Partnership of Teekay Offshore Operating Partners L.P. (1)
- 3.7 Certificate of Formation of Teekay Offshore Operating GP L.L.C. (1)
- 3.8 Amended and Restated Limited Liability Company Agreement of Teekay Offshore Operating GP L.L.C. (1)

- (1) Previously filed as an exhibit to the Partnership's Registration Statement on Form F-1 (File No. 333-139116), filed with the SEC on December 4, 2006, and hereby incorporated by reference to such Registration Statement.
- (2) Previously filed as Appendix A to the Partnership's Rule 424(b)(4) Prospectus filed with the SEC on December 14, 2006, and hereby incorporated by reference to such Prospectus.

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 21, 2007

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